

Small Business Tax Credit Webinar Appendix

June 1, 2010

The Patient Protection and Affordable Care Act (PPACA) and the subsequent Health Care and Education Reconciliation Act of 2010 signed into law in March include a Small Business Tax Credit provision.

Effective for 2010, many small businesses and not-for-profit organizations providing health insurance to their employees will qualify for a special tax credit of up to 35 percent (25 percent for tax-exempt organizations). This tax credit is designed to encourage small businesses to offer or continue to offer health insurance to their employees. There are certain eligibility criteria that must be met, and that information is available at www.IRS.gov. In general, the tax credit is available to small businesses that pay at least half the cost of single coverage for their employees, employ fewer than 25 employees AND pay wages averaging less than \$50,000 per year.

The Details

What follows are additional details about the provision as they have been defined by the regulating agencies and the legislation itself:

Who qualifies?

- Up to 25 employees
- Average wage up to \$50k
- Must contribute at least 50% of total premium
- Max credit (those with 10 or fewer employees and paying annual average wages of \$25k or less)
 - Up to 35% of premium paid from 2010 – 2013
 - Up to 25% for tax-exempt employers
- Owners and their families are excluded from the credit calculation

What you should know

- Credit begins to phase out as
 - Number of employees grow to greater than 10
 - Average annual wage climbs above \$25,000
- Positive net income required, premium up front
- Complex calculation of credit amount
- Deduction for premiums paid is reduced by amount of credit

Timing: 2010 – 2013

- Maximum credit is 35% (25% if tax-exempt) of premiums paid
- Sliding scale for firm size and wages

2014 and beyond

- Credit is only available if employer purchases health insurance coverage for its employees through a state exchange
- Limited to first 2 years of coverage
- Maximum credit increases to 50% (35% if tax-exempt) of premiums paid, with sliding scale for firm size and wages

Benchmark Premium

- Employer's premium cost allowed for the credit is limited to average total premium cost in the small group market in the employer's state
- Average premium in Arizona for the 2010 taxable year (family coverage includes any coverage other than employee-only (or single) coverage):

<u>Single</u>	<u>Family</u>
\$4,495	\$10,239

What You Need to Know

For taxable employers:

- Employer's *deduction* for health insurance premiums is reduced by the amount of *credit* taken
- Credit is claimed on the annual income tax return starting with the 2010 return filed in 2011
- Credit for a tax year cannot exceed employer's actual income tax liability
- Unused 2010 credit can be carried forward 20 years
- Unused 2011 and forward credit can be carried back 1 year and forward 20 years
- Employers can reduce estimated tax payments for the year to which the credit applies

For tax-exempt employers:

- IRS will provide further information on how to claim the credit
- Credit is refundable, but limited to total income and Medicare tax withholdings for the year plus the employer's share of the Medicare tax.
- Employment tax payments cannot be reduced during the year in anticipation of the credit.

The Uniform Percentage (required to qualify for credit)

- Employer must pay premiums for each employee enrolled in health care coverage offered by the employer in an amount equal to a UNIFORM PERCENTAGE (not less than 50%) of the premium cost of the coverage.
- Note: for 2010 only, exception is granted if coverage is not uniform for all employees includable for the test.
- More guidance is needed for specific requirements for 2011 and beyond

Owners/Family Members as Employees

- Not considered employees
 - Sole proprietor
 - Partner in a partnership
 - Shareholder owning more than 2% of an S corporation
 - Any owner of more than 5% of other businesses
 - Family members of owner/partner
- Wages/hours of business owners/family members are not counted
 - Helps to meet eligibility test of number of employees since fewer workers are included in the FTE count
 - Helps to meet average annual wages test because the higher wages paid to owners do not raise the average wage

Family Members Defined

- Child (or descendent of a child)
- Sibling or step-sibling
- Parent (or ancestor of a parent)
- Step-parent
- Niece or nephew
- Aunt or uncle
- Son-in-law
- Daughter-in-law
- Father-in-law
- Mother-in-law
- Brother-in-law
- Sister-in-law
- Household members who qualify as a dependent

(Note: spouses are not specified in the law, but most likely count as a family member)

To learn how to calculate full-time equivalance of part-time employees, visit the IRS guidance here: www.irs.gov/pub/irs-utl/3_simple_steps.pdf

Sample Employers

8 full-time employees vs. 16 FTEs vs. 23 FTEs...

		Net Tax Savings	Net Tax Savings as a Percent of Total Employer Cost	Net Tax Savings as a Percent of Total Premium Cost
Employer – Lower # of employees				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$3,822	22.8%	11.4%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			
Employer – Middle # employees				
FTE (and P/T FTE equivalent)	16			
Average annual wage	\$25,000	\$4,586	13.6%	6.8%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			
Employer – Higher # employees				
FTE (and P/T FTE equivalent)	23			
Average annual wage	\$25,000	\$1,465	3.0%	1.5%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			

Lower average wage vs. middle average wage vs. higher average wage...

		Net Tax Savings	Net Tax Savings as a Percent of Total Employer Cost	Net Tax Savings as a Percent of Total Premium Cost
Employer – Lower average wage				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$3,822	22.8%	11.4%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			
Employer – Middle average wage				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$35,000	\$2,293	13.6%	6.8%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			
Employer – Higher average wage				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$45,000	\$764	4.5%	2.3%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			

\$350 premium paid per employee per month (PEPM) vs. \$375 premium paid PEPM...

		Net Tax Savings	Net Tax Savings as a Percent of Total Employer Cost	Net Tax Savings as a Percent of Total Premium Cost
Employer – Lower premium paid				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$3,822	22.8%	11.4%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			

Employer – Higher premium paid				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$4,090	22.7%	11.4%
Premium per employee/mo.	\$375			
% premium pd. by employer	50%			

Premium = \$375 PEPM Arizona benchmark vs. Premium > \$375 PEPM Arizona benchmark...

		Net Tax Savings	Net Tax Savings as a Percent of Total Employer Cost	Net Tax Savings as a Percent of Total Premium Cost
Employer premium = benchmark				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$4,090	22.7%	11.4%
Premium per employee/mo.	\$375			
% premium pd. by employer	50%			

Employer premium > benchmark				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$4,090	17.9%	9.0%
Premium per employee/mo.	\$475			
% premium pd. by employer	50%			

Paying 50% premium vs. 100% premium...

		Net Tax Savings	Net Tax Savings as a Percent of Total Employer Cost	Net Tax Savings as a Percent of Total Premium Cost
Employer – 50% premium paid				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$4,090	22.7%	11.4%
Premium per employee/mo.	\$375			
% premium pd. by employer	50%			
Employer – 100% premium paid				
FTE (and P/T FTE equivalent)	8			
Average annual wage	\$25,000	\$8,181	22.7%	22.7%
Premium per employee/mo.	\$375			
% premium pd. by employer	100%			

Taxable vs. tax-exempt employer...

		Net Tax Savings	Net Tax Savings as a Percent of Total Employer Cost	Net Tax Savings as a Percent of Total Premium Cost
TAXABLE Employer				
FTE (and P/T FTE equivalent)	16			
Average annual wage	\$31,000	\$2,752	8.2%	4.1%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			
TAX-EXEMPT Employer				
FTE (and P/T FTE equivalent)	16			
Average annual wage	\$31,000	\$3,024	9.0%	4.5%
Premium per employee/mo.	\$350			
% premium pd. by employer	50%			

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