

A Look at Health Care Reform
A Webinar Series

Small Business Tax Credit

June 1, 2010

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An Independent Licensee of the Blue Cross and Blue Shield Association

Welcome



A Look at Health Care Reform Webinar Series

- Deeper dive into key components of reform
- Focus on business impact to you
- Two-way communication
- Resource to Share



Webinar Series

- Small Business Tax Credit – June 1, 2010
- Dependent Extension (Age 26)
- Grandfathering (Keep the Plan You're On, Does it Matter?)
- Mini Exchange
- Launch of New Reform-Compliant Products

What You'll Hear About Today



Small Business Tax Credit

- The law
- Who qualifies?
- The finer points (and key concepts)
- Employer example
- Who benefits?



Patient Protection and Affordable Care Act

- Passed on March 23, 2010
- Certain provisions effective immediately
- Includes the Small Business Tax Credit Program
 - To encourage new coverage or maintain coverage
 - Targeted to small businesses and tax-exempt organizations



Who qualifies?

- Up to 25 employees
- Average wage up to \$50k
- Must contribute at least 50% of total premium
- Max credit 35% (25% tax-exempt orgs.)



What you should know

- Credit begins to phase out as
 - Number of employees >10
 - Average annual wages > \$25,000
- 2010 Limit: Arizona average premium cost

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

- Deduction reduced by credit amount
- Owners and their families excluded

Estimating tax credits



Start by calculating number of full-time employees

- Do not include owners or family members
- Part-time employees count

Step 1

Number of full-time employees

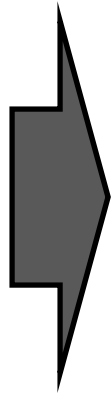
+

Full-time equivalent of part-timers
(total annual part-time hours ÷ 2080)

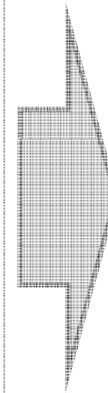
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Total employees

If < 25, go [GO TO STEP 2](#)



Step 2



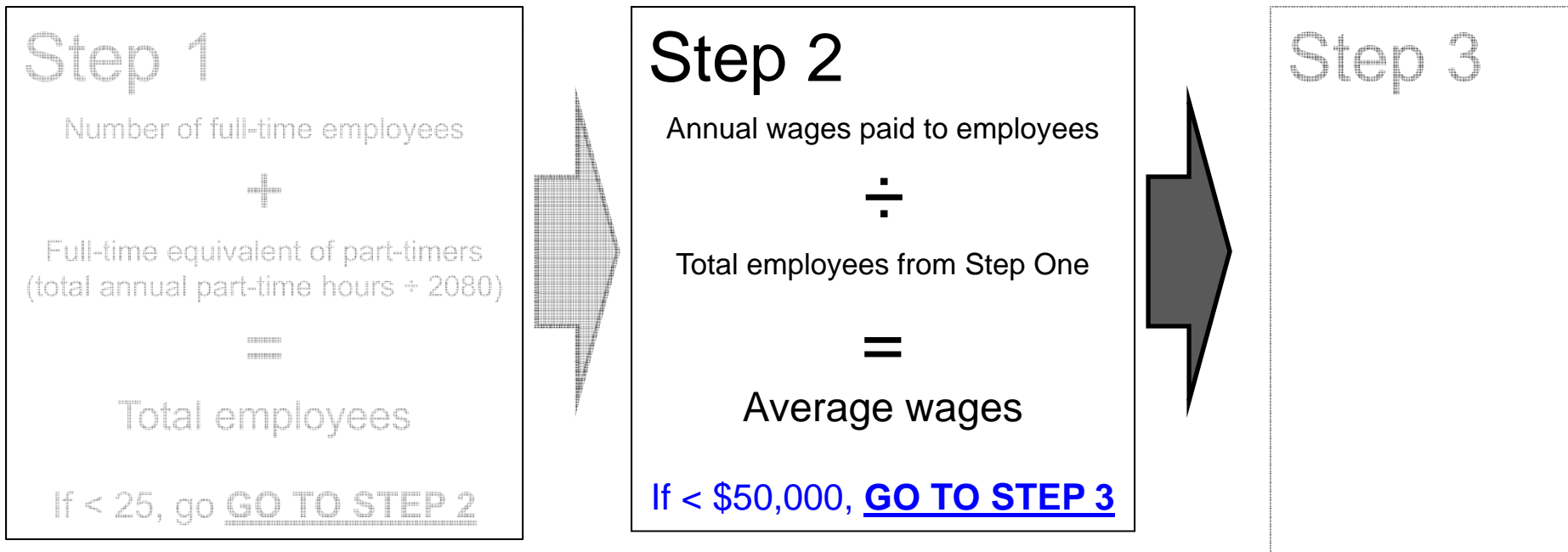
Step 3

Estimating tax credits



Then calculate average annual wages

- Do not include owners or family members
- Include total part-time wages

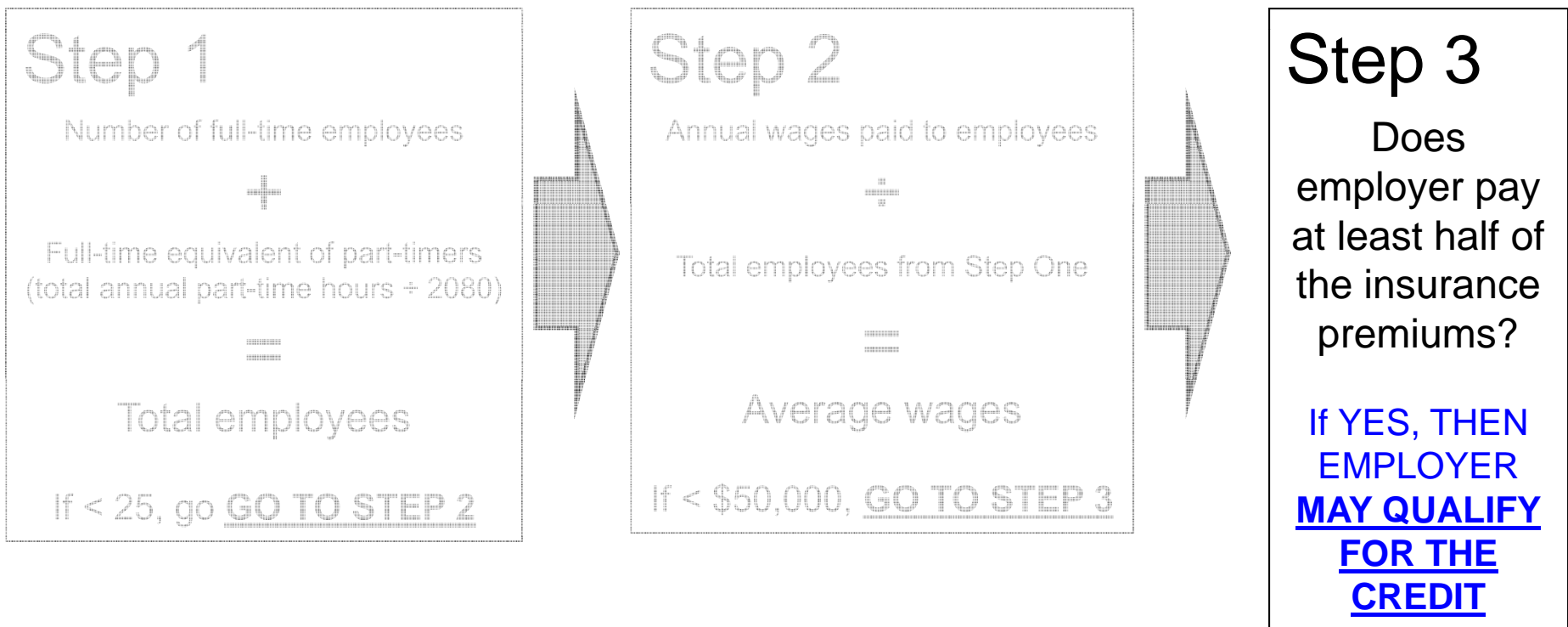


Estimating tax credits



Determine what portion of premium paid by employer

- For 2010, employers qualify with at least 50% of premiums for employees at single (employee-only) coverage rate



EXAMPLE: Calculation for Years 2010-2013



A TALE OF TWO EMPLOYERS: Assumptions

	Max. credit employer	Partial credit employer
Full Time Employees (excluding owner and family)	4	15
Hours by Part Time	9,000	0
Total Annual Payroll	\$200,000	\$480,000
Annual Premium Paid by Employer (50%)	\$16,800	\$31,500
Annual Total Premiums (based on single coverage of \$350 PEPM)	\$33,600	\$63,000

EXAMPLE: Computing the Credit



	Max. Credit	Partial Credit
STEP 1 - NUMBER OF TOTAL EMPLOYEES		
Number of full-time employees (not counting owners or family members) (enter the number of employees who work at least 40 hours per week)	4	15
PLUS		
Total annual hours of all part-time employees	9,000	0
Divided by full-time hours in a year	<u>2,080</u>	<u>2,080</u>
Equals Full-time equivalent of part-time employees	4.33	0.00
Full-time equivalent of part-time employees - round down to next whole number	<u>4</u>	<u>0</u>
Total Employees	<u><u>8</u></u>	<u><u>15</u></u>
Total Employees is 25 or greater - STOP - Credit Does Not Apply	NO	NO
Total Employees is less than 25 - Continue to Step 2	YES	YES

EXAMPLE: Computing the Credit



STEP 2 - AVERAGE ANNUAL WAGES OF EMPLOYEES

Total annual wages paid to all employees (not counting owners or family members)

Divided by the number of Total Employees from Step 1

Equals Average Annual Wages of Employees

Average Annual Wages of Employees - round down to nearest \$1,000

Average Annual Wages is \$50,000 or greater - STOP - Credit does not apply

Average Annual Wages is less than \$50,000 - Continue to Step 3

Max. Credit	Part. Credit
\$200,000	\$480,000
8	15
\$25,000	\$32,000
\$25,000	\$32,000
NO	NO
YES	YES

EXAMPLE: Computing the Credit



STEP 3 - PERCENT OF PREMIUMS PAID BY EMPLOYER

Annual amount of insurance premiums paid for employees at the single (employee only) coverage rate (not counting owners or family members)

Divided by annual premium cost of single coverage for all employees

Equals Percent of Premiums Paid by Employer

% of Premiums Paid by Employer is less than 50% - STOP - Credit does not apply

% of Premiums Paid by Employer is 50% or greater - Continue to Step 4

	Max. Credit	Part. Credit
Annual amount of insurance premiums paid for employees at the single (employee only) coverage rate (not counting owners or family members)	\$16,800	\$31,500
Divided by annual premium cost of single coverage for all employees	\$33,600	\$63,000
Equals Percent of Premiums Paid by Employer	50%	50%
% of Premiums Paid by Employer is less than 50% - STOP - Credit does not apply	NO	NO
% of Premiums Paid by Employer is 50% or greater - Continue to Step 4	YES	YES

EXAMPLE: Computing the Credit



		Max. Credit	Part. Credit
STEP 4 - Amount of premiums paid by employer eligible for the tax credit			
LESSER OF			
Annual amount of insurance premiums paid by employer per Step 3	(a)	\$16,800	\$31,500
OR			
Average annual premium cost for the small group market in the State (or area within the State) of single coverage for all employees		\$35,960	\$67,425
Times percent of premiums paid by Employer in Step 3	x	50%	50%
Premiums that would have been paid for coverage using the average annual premium cost for the small group market in the State	(b)	\$17,980	\$33,713
Amount of premiums paid by employer eligible for the tax credit	lesser of (a) or (b)	\$16,800	\$31,500

EXAMPLE: Computing the Credit



Step 5 - Tax Credit Before Reduction

	Max. Credit	Part. Credit
Amount of premiums paid by employer eligible for the credit per Step 4	\$16,800	\$31,500
Times credit percentage-35% for 2010 - 2013 (25% for tax-exempt employers) x	0.35	0.35
Maximum Tax Credit before applying reduction, if applicable	\$5,880	\$11,025

EXAMPLE: Computing the Credit



Step 6 - Reduced Tax Credit: Applies if FTE's exceed 10 people or average annual wages exceed \$25,000

Total Employees per Step 1
 Less: Number of Employees Eligible for Maximum Credit
 Number of FTE's in excess of 10 (no less than 0)

Maximum Tax Credit per Step 5
 Times ratio of excess FTEs divided by 15

Credit reduction for FTEs in excess of 10

AND / OR

Average annual wages per Step 2
 Less: Average annual wages eligible for maximum credit
 Average annual wages in excess of \$25,000 (no < \$0)

Maximum Tax Credit per Step 5
 Times ratio of excess average annual wages divided by \$25,000

Credit reduction for excess average annual wages

Total Credit Reduction for both excess FTEs and excess wages

	Max. Credit		Part. Credit	
		8		15
		(10)		(10)
		<u>0</u>		<u>5</u>
		\$5,880		\$11,025
x	0 /	15	5 /	15
		<u>(c) \$0</u>		<u>(c) \$3,675</u>
		\$25,000		\$32,000
		(25,000)		(25,000)
		<u>\$0</u>		<u>\$7,000</u>
		\$5,880		\$11,025
	\$0 /	\$25,000	\$7,000 /	\$25,000
		<u>(d) \$0</u>		<u>(d) \$3,087</u>
		<u><u>c) + (d) \$0</u></u>		<u><u>(c) + (d) \$6,762</u></u>

EXAMPLE: Computing the Credit



Step 7 - Tax Credit Amount

Maximum Tax Credit per Step 5

Less: Total Credit Reduction - excess FTEs and excess wages
(not to exceed maximum amount of credit) per Step 6

Tax Credit Amount (after reductions)

Max. Credit	Part. Credit
\$5,880	\$11,025
\$0	\$6,762
\$5,880	\$4,263

EXAMPLE: Computing the Credit



A TALE OF TWO EMPLOYERS: Conclusion

	Max. credit employer	Partial credit employer
Tax Credit Amount – Maximum Available per Step 7	\$5,880	\$4,263
Less: Tax impact of decreased premium deduction	(\$2,058)	(\$1,492)
Net Tax Savings	\$3,822	\$2,771

Net tax savings as a percentage of employer paid premium	22.8%	8.8%
Net tax savings as a percentage of total premium	11.4%	4.4%



Who Benefits from Small Business Tax Credit?

- Appealing to employers who currently offer coverage
- Sliding scale: fewer FTEs, lower wage = higher credit
- Remember: deduction is reduced by credit



Small Business Tax Credit

- What the law says
- Who qualifies
- The finer points (and key concepts)
- Employer example
- Who benefits



Small Business Tax Credit

- PPACA IRS information

www.irs.gov/newsroom/article/0,,id=220809,00.html?portlet=6

- Number of employees IRS worksheet

www.irs.gov/pub/irs-utl/3_simple_steps.pdf



Questions?

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