

Patient Protection and Affordable Care Act

Small Group Tax Credit

Overview

In an effort to help small employers offer affordable coverage to their employees, the Patient Protection and Affordable Care Act provides for tax credits for qualified small employers. These credits begin in 2010. The credits increase in 2014, but are only available for coverage purchased on an Exchange. The small group tax credit sunsets in 2016.

The information below is intended to provide a high level overview of the tax credit, but is not meant to cover all circumstances and nuances. Please refer to your legal advisor for counsel in applying for the credit.

Eligibility

- Fewer than 25 full time equivalent employees (FTEs) for the taxable year
- Average annual wages of employees for the year are less than \$50,000 per FTE
- Employer must maintain health insurance coverage in which the employer pays a uniform percentage of changes not less than 50% of the cost of coverage offered
- See IRS guidelines for tax-exempt eligibility definition

Other Eligibility Considerations

- Employees who perform services for the employer during the taxable year are included in determining FTEs, wages and premiums paid
- Not considered in determining FTEs, wages and premiums are:
 - Sole proprietors
 - Partners in a partnership *owning more than 5% of a business*
 - Shareholders owning more than 2% stock in an S corporation
 - Owners of more than 5% of other businesses
 - Employee/Spouse of owners and partners defined above
 - Family members of owners and partners defined above

Employees Taken Into Account

- All employees of the employer during the year are taken into account in computing FTE and annual average wages
- Includes
 - former employees who terminated employment during the year
 - employees covered under a collective bargaining agreement
 - employees who do not enroll in their employer's health insurance plan, regardless of whether or not they are covered under another health insurance plan
- Leased employees are counted in FTE and average wages, but not premium calculations as premiums for health insurance coverage paid by a leasing organization are not included in computing the employer's credit

Determining Average Annual Wages, Number of Hours, Number of FTEs

Average Wages

- All wages, including overtime pay, are taken into account in computing average annual wages
- Full time is considered 2,080 hours
- There are three methods of computing employee hours
 - Actual hours worked
 - Days worked equivalency
 - Weeks worked equivalency
- Employers may use different methods for different classifications of employees if they are reasonable and consistently applied
- Employers may change the method for calculating employee hours for each taxable year

Number of FTEs

- Determined by dividing the total hours of service (but not more than 2,080 per employee) by 2,080, rounded to the next lowest whole number

Premium Payments

- Only taken into account if the premiums are paid for health insurance coverage under a qualifying arrangement which is defined as premiums paid for each employee enrolled in health insurance coverage offered by the employer in an amount equal to a uniform percentage of not less than 50% of the cost of coverage
- Coverage must be offered by a licensed health insurer
 - Self-insured plans are not qualifying arrangements
 - Health reimbursement accounts and flexible spending accounts are self-insured plans and therefore are not qualifying arrangements
 - Health savings accounts are not qualifying arrangements (although underlying high deductible health plans are)
 - Employer contributions to any of the above are not taken into account for purposes of the credit
- See IRS guidance for treatment of payments to Multiemployer Health and Welfare Plans and church welfare benefit plans

Calculating the Credit

- The credit is limited by the average premium for the small group market in the State (or area within the state) in which the employer enrolls for coverage (For tax year 2010, the average premium in New York is \$5,442 for single coverage and \$12,867 for family coverage). If your premiums are higher than the state average, your credit is based on the state average premium
- For employers with employees in multiple States., the average premium for the small group market is applied separately for each employee using the average State premium for the State in which the employee works

Additional information is available on our website: excellusbcs.com/healthreform. You'll find a link to the IRS and a calculator from H&R Block.

