



GROUP INSURANCE ANALYSTS, INC.

Small Employer Tax Credit

Section 45R of the Internal Revenue Code offers a tax credit to certain small employers that provide health insurance coverage to their employees. Section 45R was added to the code by the Patient Protection and Affordable Care Act (or health care reform law).

Eligibility

The tax credit is effective for taxable years beginning in 2010. Both taxable employers and tax-exempt employers may be eligible for the credit. To be considered an eligible small employer:

- The employer must have fewer than 25 full-time equivalent employees (FTEs) for the taxable year
- Average annual wages of its employees for the year must be less than \$50,000 per FTE
- The employer must maintain a “qualifying arrangement” under which the employer pays a certain percentage of the premiums (generally a minimum of 50%) for each employee enrolled in the employer’s health plan

Credit amount

The credit is worth up to 35% of a small business's premium costs in 2010 (25% for tax-exempt employers). Starting in 2014, the maximum credit increases to 50% (35% for tax-exempt employers). The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers. Starting in 2014, the credit will be available only for a two-year period and only for coverage purchased through an exchange.

IRS information and resources

Initially, the IRS outlined rules for the tax credit in [Notice 2010-44](#). A follow-up document, [Notice 2010-82](#), explained transition relief related to the rules for a qualifying arrangement and provided more details about the requirements. For example, Notice 2010-82 clarifies how an

employer that offers more than one plan determines whether its contribution amount meets the threshold for a qualifying arrangement. The IRS has released several additional items related to the tax credit, including:

[Three Simple Steps Fact Sheet](#)

[Frequently Asked Questions](#)

[YouTube Video](#)

More information is available on the [IRS website](#).

The small business tax credit is designed to encourage small businesses to offer health care coverage for the first time or to help them maintain the coverage they already have. To help make health care reform work for our customers, we partnered with H&R Block® to develop the tax credit calculator tool that is available on our [health care reform website](#) for employers and brokers.

Neither this document nor the tax credit calculator is intended to give tax advice. Customers should consult with their tax adviser due to the complexity of the calculation required to determine the amount of credit.

This content is provided solely for informational purposes. It is not intended as and does not constitute legal advice. The information contained herein should not be relied upon or used as a substitute for consultation with legal, accounting, tax and/or other professional advisers.

Questions and answers

Q. How does an employer determine eligibility for the tax credit?

The IRS has outlined the following steps:

- Determine the employees who are taken into account for the credit.
- Determine the number of hours of service performed by those employees.
- Calculate the number of the employer's FTEs.
- Determine the average annual wages paid per FTE.

Determine the premiums paid by the employer that are taken into account for the credit. Specifically, the premiums must be paid by an employer under a qualifying arrangement and must be paid for health insurance that meets the requirements of section 45R.

To help employers determine whether they qualify and what their potential credit could be, we worked with H&R Block to develop a tax credit calculator. The calculator is available on our [health care reform website](#) for employers and brokers.

Q. How does an employer calculate the tax credit?

Employers will use the new Form 8941 ([link to form](#) | [link to instructions](#)), Credit for Small Employer Health Insurance Premiums, to calculate the small business health care tax credit. Small businesses will include the amount of the credit as part of the general business credit on their income tax returns. Tax-exempt organizations will include the amount of the credit on Line 44f of revised Form 990-T, Exempt Organization Business Income Tax Return.

Q. If an employer offers multiple plan options, is the minimum contribution 50% for all plans or for just one of them?

IRS Notice 2010-82 provides details about how to determine whether a plan is a qualifying arrangement – including situations where an employer offers more than one plan. The rules are very complicated, so we advise employers to consult with a tax adviser – especially if more than one plan is offered.

Q. Do employer contributions to an employees' HRA or HSA count toward the 50% minimum employer contribution?

According to IRS Notice 2010-82, an employer's premium payments are taken into account for the credit only when the premiums are for "health insurance coverage." Because health reimbursement arrangements (HRAs) and health savings accounts (HSAs) are not considered health insurance coverage, employer contributions to HRAs and HSAs are not taken into account for purposes of the small business tax

Group Insurance Analysts, Inc.
9195 W. 44th Avenue
Wheat Ridge, CO. 80033
888-423-3232, ext. 100
www.e-gia.com