



Health Care Reform Alert **Tax Credit for Small Businesses Providing Health Insurance** What Employers Need to Know

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The Affordable Care Act established a tax credit to encourage small business owners to offer their employees health insurance.

This summary is designed to give a brief overview of the credit and how it is calculated for 2014 and beyond. Creative Benefits can help our small business clients determine if they *may* be eligible for the credit. Your tax professional is in the best position to determine definitively if you are eligible and the amount of any credit you can claim.

Which small businesses are eligible?

In general, businesses that have

- 25 or fewer **full-time equivalent employees** (importantly, FTEs are different from full-time employees), and
- FTEs earning an average annual salary of less than \$50,000 each, and
- A group health insurance plan for which the business pays at least 50 percent of the premiums on a uniform basis for employees

For which years is the credit available?

For 2010, 2011, 2012, and 2013 under existing transition rules; for 2014 and beyond, new rules go into effect which limit the tax credit to two consecutive years—and only if group health plan coverage is purchased via a SHOP (Small Business Health Options Program) through a health insurance marketplace.

Small businesses that claimed the credit for years before 2014 may still be eligible to claim the credit in 2014 and after.

Is the credit easy to claim?

The New York Times reported in 2012 that it can take employers two to eight hours to calculate and claim the credit and tax preparers three to five hours. There are numerous caveats and limitations to take into account when calculating the tax credit.

Is it worth it for my small business?

Some businesses can receive a substantial credit, while others may receive so little that it might not be worth their time, effort, and expense to claim the credit.

- For years 2013 and earlier, the maximum credit available is 35 percent of the premiums paid on behalf of employees (25 percent for non-profit companies).

- For 2014 and beyond, the maximum credit is increased to 50 percent of premiums paid (35 percent for non-profits).

The maximum credit will be claimed by businesses employing less than 10 employees who each earn an average of \$25,000 or less. As a company’s FTEs increase, as well as the average annual salary per FTE, the credit is reduced on a sliding scale.

For example, a business employing 9 FTEs each earning an average of \$25,000 will receive a much more substantial credit (50 percent of premiums paid) than a business employing 21 FTEs each earning an average of \$30,000 (3 percent of premiums paid).

Table 1 illustrates the percentage of credit that could be earned by a small for-profit business in 2014 employing varying numbers of FTEs earning different levels of salary.

Table 1. Small Business Tax Credit as a Percent (Maximum of 50%) of Employer Contribution to Premiums, For-Profit Firms in 2014+

Business Size (FTEs)	Average Wage					
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000
Up to 10	50%	40%	30%	20%	10%	0%
11	47%	37%	27%	17%	7%	0%
12	43%	33%	23%	13%	3%	0%
13	40%	30%	20%	10%	0%	0%
14	37%	27%	17%	7%	0%	0%
15	33%	23%	13%	3%	0%	0%
16	30%	20%	10%	0%	0%	0%
17	27%	17%	7%	0%	0%	0%
18	23%	13%	3%	0%	0%	0%
19	20%	10%	0%	0%	0%	0%
20	17%	7%	0%	0%	0%	0%
21	13%	3%	0%	0%	0%	0%
22	10%	0%	0%	0%	0%	0%
23	7%	0%	0%	0%	0%	0%
24	3%	0%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%	0%

Source: CRS analysis of PPACA (P.L. 111-148).

What are full-time equivalent employees anyway?

FTEs are the product of a calculation. For purposes of the small business tax credit, in general an employer adds up all the hours of service of its employees then divides the total by 2,080 (rounding down when necessary). For example

$$13,520 \text{ hours of service} \div 2,080 = 6.5, \text{ or round down to 6 FTEs}$$

Note that an employer may have over 25 employees and still be able to claim the credit. Say there are 46 part-time employees providing 20 hours of service per week for the year:

$$47,840 \text{ hours of service} \div 2,080 = 23 \text{ FTEs}$$

Or perhaps there are 15 full-time employees providing 40 hours of service per week per year and 20 part-time employees providing 15 hours of service per week per year:

$$46,800 \text{ hours of service} \div 2,080 = 22.5, \text{ or rounded down to 22 FTEs}$$

There is a long list of individuals who are excluded from the FTE calculation, including but not limited to owners, partners, all family members, spouses, and certain seasonal employees.

How is the average annual FTE wages calculated?

Take the total wages paid during the year to FTEs, including overtime, and then divide by the number of FTEs. Interestingly, wages paid to seasonal employees are factored into the total wages paid.

If I want to claim the credit in 2014, do I have to establish a SHOP group health plan on January 1, 2014? My current group plan begins midyear.

If your plan begins on a date other than the first day of your taxable year, you may not be able to offer coverage through a SHOP until your plan year ends in 2014. In this situation, transition relief is offered if you

1. Offer coverage as of August 26, 2013 in a plan that doesn't begin at the start of your taxable year;
2. Offer coverage before the start of the 2014 plan year that otherwise would have qualified for the credit; and
3. Offer coverage through a SHOP for the 2014 plan year.

Thus, you will be treated as having offered coverage through a SHOP for the entire 2014 tax year.

This health care reform alert is only a summary of one provision of the Affordable Care Act. It cannot cover all aspects of the provision and how it will impact your company.

Please contact Robin Norgaard at Creative Benefits, Inc. with any questions on this health care reform alert or any other health care reform issue. She can be reached at 866-306-0200, extension 3142.