



CLIENT MEMO
SMALL EMPLOYER HEALTH INSURANCE CREDIT

In June, we provided you a summary of the upcoming tax changes resulting from recent health care legislation. This summary is also available on our website at www.fbco.com. One of those changes, effective beginning in 2010, is the tax credit available to businesses providing health insurance to their employees. This letter is a description of the health insurance tax credit.

Starting this year and through 2013, eligible employers will receive a tax credit for 35% of the employer's contributions toward employees' health insurance.

The following are the basic requirements to be eligible for this credit.

1. The full 35% credit is available to employers with 10 or fewer full-time equivalent employees with average wages of \$25,000 or less.
 - a. A reduced credit is available for employers with more than 10 employees or average wages greater than \$25,000. The credit is completely phased out when total full-time equivalent employees reaches 25, or when average wages reaches \$50,000.
 - b. If an employer has part-time employees, the number of "full-time equivalent" employees is computed by dividing the total hours of all employees by 2,080. Therefore, an employer could have more than 25 employees and still obtain a credit, if enough employees were part-time.
 - c. The following are entirely excluded in computing either the number of employees or average wages for the purpose of the credit: self-employed individuals, 5% or greater owners of the business, 2% or greater owners of an S-corporation, or someone who is related to or dependent of any of these people. Seasonal workers are also excluded, unless they worked more than 120 days for the employer during the year.
 - d. Other than those excluded above, all employees' hours and wages are counted, even though not all of them are enrolled in the employer's health insurance plan.

2. The employer must pay for at least 50% of its employees' medical coverage under a qualifying arrangement.
 - a. For 2010 and thereafter, the employer must pay at least 50% of the medical plan premium for all employees who participate in the plan.
 - b. For 2011 and thereafter, the percentage of medical plan coverage paid by the employer must be a uniform percentage (not less than 50%) for all employees participating in the plan.
 - c. Contributions paid on behalf of employees excluded from the calculation of full-time equivalent employees or average wages (for example, a 5% or greater owner) are also not included in computing the credit or determining eligibility for the credit.



The computation of “full-time equivalent” employees and average wages will be more complicated for certain situations, such as those involving part-time employees, employees working overtime, or employees paid during an extended leave of absence.

In 2014, the credit is computed at 50% of eligible employer contributions, but the credit from that year forward may only be taken for 2 consecutive years.

The Health Insurance Credit is a general business credit, which means that it may only offset income tax incurred. However, any unused credit may be carried back one year, and forward up to 20 years.

A credit is available for not-for-profit organizations using a similar but different set of rules.

Please let us know if you have any questions, or if we can be of further assistance to you in this regard.

FISHMAN, BLOCK + DIAMOND, LLP