



Sensible solutions for your Employee Benefits Needs

ZINTAX CONSULTING is a Christ centered, independent Employee Benefits Consultant / Broker, providing cost effective solutions to employers, assisting them select, contract and administer benefit programs for their employees; anticipating rather than reacting to the employer-employee relationship.

Understanding the Small Business Health Care Tax Credit

The Affordable Care Act includes the small business health care tax credit, which can benefit small employers who provide health coverage for their employees.

The small business health care tax credit benefits employers who:

- have fewer than 25 full-time equivalent employees
- pay an average wage of less than \$51,600 a year
- pay at least half of employee health insurance premiums

Here are some facts that will help you understand this tax credit and how it may affect your small business or tax-exempt organization:

- Credit percentage is 50 percent of employer-paid premiums; for tax-exempt employers, the percentage is 35 percent.
- Small employers may claim the credit for only two consecutive taxable years beginning in tax year 2014 and beyond.
- For 2015, the credit is phased out beginning when average wages equal \$25,800 and is fully phased out when average wages exceed \$51,600. The average wage phase out is adjusted annually for inflation.
- Generally, small employers are required to purchase a Qualified Health Plan from a Small Business Health Options Program Marketplace to

be eligible to claim the credit. (ZINTAX CONSULTING CONFIRMED WITH IRS AND A.C.A. LEGAL DEPARTMENT THIS RULE HAS RECENTLY BEEN CHANGED TO ALLOW ANY PLANS IN STATES LIKE FLORIDA WHERE **SHOP** PLANS ARE NOT AVAILABLE). Transition relief from this requirement is available to certain small employers.

Small employers may still be eligible to claim the tax credit for tax years prior to 2014. Employers who were eligible to claim this credit for prior years – but did not do so – may consider if they are still eligible to amend prior year returns in order to claim the credit.

Gathering the following information will assist you in completing [Form 8941](#), *Credit for Small employer Health Insurance Premiums*.

If you are a small employer, there is a tax credit that can put money in your pocket.

The small business health care tax credit benefits employers that:

- Have fewer than 25 full-time equivalent employees
- Pay average wages of less than \$50,000 a year per full-time equivalent (indexed annually for inflation beginning in 2014)
 - For tax year 2014, the inflation-adjusted amount is \$51,000
 - For tax year 2015, the inflation-adjusted amount is \$52,000
 - For tax year 2016, the inflation-adjusted amount is \$52,000
 - For tax year 2017, the inflation-adjusted amount is \$53,000



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- Offer a qualified health plan to its employees through a Small Business Health Options Program Marketplace (or qualify for a limited exception to this requirement)
- Pay at least 50 percent of the cost of employee-only – not family or dependent – health care coverage for each employee

For information about qualified health plans offered through the SHOP Marketplace, [visit Healthcare.gov](http://www.healthcare.gov).

How will the credit make a difference for you?

The maximum credit is:

- 50 percent of premiums paid for small business employers and
- 35 percent of premiums paid for small tax-exempt employers
- The credit is available to eligible employers for two consecutive taxable years

The amount of the credit you receive works on a sliding scale. The smaller the employer, the bigger the credit. So if you have more than 10 full-time equivalent employees or if the average wage is more than \$25,000 (as adjusted for inflation), the amount of the credit you receive will be less. For example, if you pay \$50,000 a year toward employees' health care premiums, and if you qualify for a \$10,000 credit each year, you can save \$20,000 over the course of two years

Even if your small business does not owe tax during the year, you can carry the credit back or forward to other tax years. Also, since the amount of the health insurance premium payments is more than the total credit, eligible small businesses can

still claim a business expense deduction for the premiums in excess of the credit. That's both a credit and a deduction for employee premium payments.

Even if you are a small business employer who did not owe tax during the year, you can carry the credit back or forward to other tax years. Also, since the amount of the health insurance premium payments is more than the total credit, eligible small businesses can still claim a business expense deduction for the premiums in excess of the credit. That's both a credit and a deduction for employee premium payments.

The credit is refundable, so if you're tax-exempt and have no taxable income, you may be eligible to receive the credit as a refund so long as it does not exceed your income tax withholding and Medicare tax liability. Refund payments issued to small tax-exempt employers claiming the refundable portion of the credit are subject to [sequestration](#).

You can benefit from the credit this year or in previous years. If you didn't claim it on your tax return, there's still time to file an amended return. Refund limitations may apply. Generally, a claim for refund must be filed within three years from the time the return was filed or two years from the time the tax was paid, whichever of such periods expires the later, or if no return was filed by the taxpayer, within two years from the time the tax was paid.

For information about State-based SHOs participating in the direct enrollment process, such as the one adopted by federally-facilitated [SHOP Marketplaces](#), see the [Centers for Medicare & Medicaid Services \(CMS\) FAQs](#) about flexibilities for State-based SHOP direct enrollment. The requirement to purchase insurance through the



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SHOP Marketplace did not apply to tax years prior to 2014.

Determining FTEs for the health care tax credit

In general, you'll consider all employees who perform services for the small employer during the tax year when determining the number of your full-time equivalent employees, as well as average annual wages and premiums paid.

However, in your FTE calculation, do not include the wages and hours worked of the certain types of employees mentioned below. You also won't include the premiums paid on behalf these employees to determine the amount of your health care tax credit:

- Owner of a sole proprietorship
- Partner in a partnership
- Shareholder of S Corporation owning more than 2 percent
- Owner of more than 5 percent of the business or other businesses
- Family members of the above

For purposes of the health care tax credit, one FTE generally equals 2,080 hours per year. This is different from other provisions of the Affordable Care Act that count 30 hours per week as one FTE. Any number of part-time employees that work a combined number of hours equal to that of a full-time employee equals one FTE. For example, two half-time employees count as one FTE; 20 half-time employees is equivalent to 10 FTEs. Exclude from the calculation the hours that exceed 2,080. Also exclude seasonal employees who work 120 or fewer days per year from the calculation of the number of FTEs and average

annual wages; however, the health insurance premiums paid by the employer on behalf of these employees may be counted in determining the amount of the credit.

Calculating average annual wages

If you pay total annual wages of \$200,000 to your 10 FTEs, you divide \$200,000 by 10 — the number of FTEs — to determine your average annual wage. In this example, the average annual wage would be \$20,000.

Claiming the health care tax credit

You must use [Form 8941](#), Credit for Small Employer Health Insurance Premiums, to calculate the credit. For detailed information on filling out this form, see the [Instructions](#) for Form 8941.

If you're a small business, include the amount as part of the general business credit on your income tax return.

If you're a tax-exempt organization, include the amount on line 44f of the Form 990-T, *Exempt Organization Business Income Tax Return*. You must file the [Form 990-T](#) in order to claim the credit, even if you don't ordinarily do so.

If you are a small business employer, you may be able to carry the credit back or forward. And if you are a small tax-exempt employer, you may be eligible for a refundable credit.

Zintax Consulting will assist our clients, at no cost, complete the required forms and submit them to the I.R.S. to obtain a refund.