



Health Care Changes – How Do They Impact Me?



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Included in the recently passed health care legislation acts are some tax credits that are available to tax exempt organizations. The health insurance tax credit and the payroll tax exemption are both available to qualifying exempt organizations.

Health Insurance Tax Credit

Four million small businesses and exempt organizations received a postcard in the mail from the IRS earlier this year identifying a new tax credit available under the Patient Protection and Affordable Care Act to small businesses and exempt organizations that provide health insurance coverage to their employees. It is designed to encourage small employers to offer or continue health insurance coverage for their employees.

“We want to make sure small employers across the nation realize that — effective this tax year — they may be eligible for a valuable new tax credit,” IRS Commissioner Doug Shulman said. “We urge every small employer to take advantage of this credit if they qualify.”

Exempt organizations with fewer than 25 full-time employees and paying less than \$50,000 in average wages (total annual wages divided by full-time equivalent employees during the year) are eligible for a tax credit of up to 25% of the cost of health insurance premiums paid by employers on behalf of its employees. In 2014, the maximum credit increases to 35%.

Additionally, the exempt organization or small business must be paying at least 50% of the premium cost. An arrangement where the employer pays 80% of the health insurance premiums would be eligible but one where only 20% of the premiums are paid by the employer would not. When the employer pays only a portion of the premiums, only the actual portion paid can be used when calculating the credit. Any premiums paid through a Section 125 cafeteria plan are not treated as being paid by the employer. Additionally, the amount of the premium is capped based on the average premium for the small group market in the state. These rates vary by state and can be found in Revenue Ruling 2010-13 for 2010.

Employers who have more than 25 employees may still be eligible for the credit since it looks to the full-time employee equivalent rather than the actual number of individuals employed. An organization with 40 part-time employees (20 hours/week) may qualify since the full-time equivalent in this situation is 20.

The maximum credit goes to employers who have 10 or fewer full-time equivalent employees with wages averaging \$25,000 or less. It is gradually phased out after that and completely eliminated for organizations with over 25 full-time employees and average wages in excess of \$50,000. Additionally, the credit cannot exceed the amount of payroll tax liability for the organization.

For small businesses, the credit can be claimed as part of the general business credit. For exempt organizations, the credit is a refundable credit. Even if the organization does not file a Form 990-T, it may still receive a refund as long as the amount does not exceed the income tax withholding and Medicare tax liability for the year. The IRS is expected to issue further guidance in the future on how tax exempt organizations can go about claiming this credit.

We would be happy to assist you with any of your questions. Please call us at 941-365-4617 or email Rob Lane at rlane@kbgrrp.com or Patricia Entsminger at pentsminger@kbgrrp.com.

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