

IRS Small Business Health Care Tax Credit

The new Internal Revenue Service (IRS) Small Business Health Care Tax Credit helps small businesses and small tax-exempt organizations afford the cost of covering their employees' health care benefits. This new program may enable you to expand your benefit plans to include specialty benefits and potentially offer a richer health care plan to your employees.

If you currently provide your employees health care benefits

If you currently cover your employees you may qualify for the 2010 tax credit. Because you can get both the deduction and the tax credit, you may now be able to provide health care benefits to your employees at a reasonable premium. See side bar for program eligibility rules. You should seek advice from an accountant and attorney, but here are a few things to consider:

- ▶ **Count staff.** To qualify for a credit, you must have no more than 25 full-time equivalent employees. To determine the total number of employees (not counting owners or family members) add together the number of full-time employees and the number of full-time equivalents for part-time employees (divide the annual total hours worked for part-time employees by 2,080).
- ▶ **Calculate Wages.** Your average annual wages must be less than \$50,000 and you will also need to pay at least 50% of the premiums to qualify for the tax credit.

If you have uninsured employees

If you don't cover your employees – the 2010 tax credit may make this the year to start. The tax credit allows you to both deduct your premium contribution as an expense and receive a credit that reduces taxes due. For example, if you qualify for the credit and you pay for \$50,000 of employee health care premiums, the combined credit and deduction could reduce your tax bill by almost \$23,000.¹



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¹ Illinois example. Credits are capped based on state average premiums and therefore they can vary by state and by employer contribution, which is a minimum of 50%. Various other requirements apply. Example assumes annual income of \$500,000, 9 FTEs. The tax credit reduces the deduction that an employer may take for the group health premium.

Insurance coverage provided by or through UnitedHealthcare Insurance Company or its affiliates. Health Plan coverage provided by or through a UnitedHealthcare company.

Help your part-time employees find and enroll in new programs.

You aren't required to cover your part-time employees, but you can help them find and enroll in the new products and programs that are available this year. For example, some employees will be eligible to enroll in their parents' health insurance plan. Some may be eligible to enroll in existing public programs. Some can find inexpensive individual coverage. For as little as \$5 per employee per month, our UnitedHealthcare Employee Assistance Plan can help part-time employees determine if they are eligible for new products and programs. We can also help part-time employees find discounts on medical services and access nurse advice 24 hours a day. The Employee Assistance Plan is also available for your full-time employees.

For additional information about the health care tax credit for small businesses, visit the IRS Web site at <http://www.irs.gov/newsroom/article/0,,id=221511,00.html>, or contact your accountant, attorney, broker or UnitedHealthcare representative.

Eligibility rules

- ▶ For-profit and tax-exempt employers may qualify.
- ▶ All three of the following criteria must be met in order to qualify:
 1. The employer must cover at least 50% of health care coverage costs for workers based on the employee-only (single) rate.
 2. The employer must have no more than the equivalent of 25 full-time workers (not counting owners or family members).
 3. Employees' average annual wages (not counting owners or family members) must be below \$50,000.

Credit amount

- ▶ The maximum credit is worth up to 35% of a company's premium costs in 2010 (25% for tax-exempt employers).
 - Note that the rate will increase to 50% on Jan. 1, 2014 (35% for tax-exempt employers).
- ▶ The credit gradually phases out for employers with average wages between \$25,000 and \$50,000, and for employers with the equivalent of between 10 and 25 full-time workers.

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Small Business Tax Credit Summary of Provisions

Effective for taxable years beginning after 12/31/2009

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Provisions	2010-2013	2014+
Employer Qualifications	<ul style="list-style-type: none"> Employs no more than 25 full-time equivalent employees Average annual employee wages does not exceed \$50K 	Baseline amount (\$25K) adjusted by cost of living adjustment
Employees Excluded	<ul style="list-style-type: none"> Seasonal workers unless they work more than 120 days during the taxable year A self-employed individual but treated as an employee within the meaning of section 401(c)(1) Any 2% shareholder (defined by section 1372(b)) of an eligible small business which is an S corporation Any 5% owner of the small business (defined by section 416(i)(1)(B)(i)) Any individual who bears any of the relationships described in subparagraphs (A) through (G) of section 152(d)(2) to, or is a dependent described in section 152(d)(2)(h) of, the previously mentioned employees [note, we can either add the list or just site to the sections] Leased employees, however, are included (section 414(n)) 	No changes after Exchanges are implemented
Health Insurance Credit Amount <ul style="list-style-type: none"> Non Tax Exempt 	<ul style="list-style-type: none"> 35% of the lesser of: <ul style="list-style-type: none"> Aggregate amount of nonelective contributions the employer made on behalf of its employees for premiums paid for health insurance coverage of an eligible employee; or Aggregate amount of nonelective contributions which the employer would have made during the taxable year if each employer had enrolled in a health plan which had a premium equal to the average premium for the small group market in the State in which the employer is offering insurance (determined by the Secretary of HHS) Amount of the credit will be reduced by a calculation set forth in the law and based on the employer's eligible employee population and the amount of wages paid. Employer's deduction for premiums paid for group health plan is reduced by the credit. 	<ul style="list-style-type: none"> Increased to 50% of the lesser of <ul style="list-style-type: none"> Aggregate amount of nonelective contributions made on behalf of employees during the taxable year for premiums for qualified health plans offered through the Exchange, or Aggregate amount of nonelective contributions which the employer would have made during the taxable year under the arrangement if each employee had enrolled in a qualified health plan offered through the Exchange which had a premium equal to the average premium for the small group market in the rating area in which the employee enrolls in coverage Amount of the credit will be reduced using the same calculation set forth in the column to the right (pre-Exchange) and allowing for a cost of living adjustment.
<ul style="list-style-type: none"> Tax Exempt 	<ul style="list-style-type: none"> 25% of nonelective contributions for premiums paid for health insurance coverage Based on nonelective contributions for premiums paid for health insurance coverage (within the meaning of section 9832(b)(1)) of an employee <ul style="list-style-type: none"> Amount of the credit will be adjusted by in the same manner as non-tax exempt organizations. Uses average premium for the small group market in the State in which the employer is offering insurance – determined by HHS Sec. [Move to the first bullet] Defined as any organization under section 501(c) which is exempt from taxation under section 501(a) 	<ul style="list-style-type: none"> Increased to 35% of non-elective contributions Credit allowable is the lesser of the amount of credit or the amount of the payroll taxes of the employer during the calendar year in which the taxable year begins Calculation of credit is the same as "non-tax exempt" summary above
<ul style="list-style-type: none"> Credit Period 	Credit period does not begin until the Exchange opens.	Credit means the 2 consecutive taxable year period beginning with the 1 st taxable year in which the eligible employer offers 1 or more qualified health plans through the Exchange.

Definitions

Full-time equivalent

Number of employees equal to the number by dividing (total # of hours of service for which wages were paid by the employer to employees during the taxable year)/2,080 – rounded to next lowest whole number. If employee works in excess of 2,080 hours of service during the taxable year, the excess cannot be counted. Secretaries of HHS and Labor determine how hours of service are calculated for hourly and non-hourly employees. The figure does not include “seasonal worker” as that term is defined below.

Average annual wages

The aggregate amount of wages which were paid to employees during the taxable year divided by the number of full-time equivalent employees for the taxable year.

Non-elective contributions

Contributions on behalf of each employee who enrolls in a qualified health plan offered to employees by the employer through an exchange in an amount equal to a uniform percentage (not less than 50%) of the premium cost of the qualified health plan.

Seasonal worker

Worker who performs labor or services on a seasonal basis (as defined by Secretary of Labor – section 500.20(s)(1) of title 29) and retail workers employed exclusively during the holiday season.

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3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:

1

Determine the total number of your employees (not counting owners or family members):

Full-time employees: _____
(enter the number of employees who work at least 40 hours per week)

+

Full-time equivalent of part-time employees: _____
(Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)

= total employees

If the total number of employees is fewer than 25 **GO TO STEP 2**

2

Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees: _____

÷

Divide it by the number of employees from STEP 1: _____
(total wages ÷ number of employees)

= average wages

If the result is less than \$50,000, **AND**

3

You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then

» you may be able to claim the **Small Business Health Care Tax Credit**.
Find out more information at **IRS.gov**

