



Numeric Strategies, LLC

Tax, Accounting & Financial Solutions

Certified Public Accountants

Jackie Spegele, CPA

Nolan Gookin, CPA

Re: Final Regulations on Small Employer Health Care Tax Credit

Dear Clients:

If you are a small employer with fewer than 25 full-time equivalent employees, pay an average wage of less than \$50,000 (as adjusted for inflation beginning in 2014) a year, and pay at least half of employee health insurance premiums then there is a tax credit that may put money in your pocket.

What You Need to Know about the Small Business Health Care Tax Credit

For tax years 2010 through 2013, the maximum credit is 35 percent of premiums paid for small business employers and 25 percent of premiums paid for small tax-exempt employers such as charities. For tax years beginning in 2014 or later, there are changes to the credit:

- The maximum credit increases to 50 percent of premiums paid for small business employers and 35 percent of premiums paid for small tax-exempt employers.
- To be eligible for the credit, a small employer must pay premiums on behalf of employees enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace or qualify for an exception to this requirement.
- The credit is available to eligible employers for two consecutive tax years.

This means that if you pay \$50,000 a year toward employees' health care premiums — and if you qualify for a 15 percent credit, you save... \$7,500. If you save \$7,500 a year from tax year 2010 through 2013, that's total savings of \$30,000. If, in 2014, you qualify for a slightly larger credit, say 20 percent, your savings go from \$7,500 a year to \$10,000 a year.

Even if you are a small business employer who 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.

And finally, if you can benefit from the credit this year but forgot to 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 3 years from the time the return was filed or 2 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 2 years from the time the tax was paid.

www.Numeric-Strategies.com

255 N. Jefferson St. Ste. #100, Monument, Colorado 80132

Phone (719) 481-2623 / Fax (719) 481-1849

To be eligible, you must cover at least 50 percent of the cost of employee-only (not family or dependent) health care coverage for each of your employees. You must also have fewer than 25 full-time equivalent employees (FTEs). Those employees must have average wages of less than \$50,000 (as adjusted for inflation beginning in 2014) per year.

Remember, you will have to purchase insurance through the SHOP Marketplace (or qualify for an exception to this requirement) to be eligible for the credit for tax years 2014 and beyond. Participating in the direct enrollment process, such as the one adopted by federally-facilitated SHOP Marketplaces, counts as SHOP Marketplace participation for 2014 only.

What is an FTE?

Basically, two half-time employees count as one FTE. That means 20 half-time employees are equivalent to 10 FTEs, which makes the number of FTEs 10, not 20.

For example, if you pay total wages of \$200,000 and have 10 FTEs. To figure average annual wages you divide \$200,000 by 10 — the number of FTEs — and the result is your average annual wage. The average annual wage in this example would be \$20,000.

Also, the amount of the credit you receive works on a sliding scale. The smaller the business or organization (such as charities), the bigger the credit. So if you have more than 10 FTEs or if the average wage is more than \$25,000 (as adjusted for inflation beginning in 2014), the amount of the credit you receive will be less.

Now that you know how the credit can make a difference for your business, we can help determine if you can claim it. Please call our office for more details.

Sincerely yours,

Jackie Spegele