



# SMALL EMPLOYER TAX CREDIT

## SUMMARY GUIDE

### What Employers are Eligible for the Small Employer Tax Credit?

- Must have fewer than 25 full-time equivalent employees (FTEs)
- Must have average annual wages less than \$50,000 per FTE
- Must pay premiums under a qualifying arrangement

### Who are FTEs?

- Count/aggregate all employees who perform services
- Include leased employees, employees in controlled group, seasonal employees (if work >120 days), former employees, collectively bargained employees, employees not in health plan
- Divide total hours of all employees' service by 2,080 (round to next nearest lowest whole number)

### What are Average Annual Wages?

- Total wages (including overtime) divided by the number of FTEs (round down to nearest \$1,000)

### What is a Qualifying Arrangement?

- Must pay uniform percentage of premium (no less than 50%) for each enrolled employee
- Transition relief for 2010
  - Can satisfy requirement even if % of premiums paid isn't uniform for all employees, as long as employer pays at least 50% of premium for each employee enrolled (relief uses premium for employee-only coverage when applying the requirement)

### What Premium is Included when Calculating Credit?

- Limited to average premium for small group market in State offering coverage (See IRS Guidelines)
- Limited to premium paid by employer
- DO NOT count premiums paid per pre-tax salary reduction
- DO NOT count contributions to health FSA, HRA or HSA
- DO NOT include premium for excludable individuals (business owners, partners and family members)
- Include all premiums paid in 2010 tax year

### How do you Calculate Credit?

- Calculate maximum amount of credit
  - For taxable employers max is 35% (50% in 2014)
  - For tax-exempt employers max is 25% (35% in 2014)
- Reduce maximum credit in accordance with phase-out, if necessary
  - Full credit only allowed if 10 or less FTEs and average annual wages of \$25K or less
- Determine actual premium payment if receiving state subsidy/credit

### How do you Claim Credit?

- Taxable employers: attach Form 8941 to annual income tax return
- Tax-exempt employers: attach Form 8941 to Form 990-T
  - Can claim credit if no taxable income for year