GROWERTALKS

Features

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The Health Insurance Silver Lining

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For many businesses, offering health insurance is critical to attracting the kind of workers needed to succeed. Fortunately, whether the growing business presently offers health insurance or is merely considering offering it, there's a sliver of a silver lining in the form of a unique, often-overlooked tax credit for small employers.

Any growing or retail business that provides health care coverage is eligible for the Small Employer Health Insurance Tax Credit if, for the tax year, they have 25 or fewer full-time equivalent (FTE) employees who are paid an average annual salary of less than $50,000. The maximum credit is 35% this year and rises to 50% of the annual premium paid for 2014 and thereafter. But the tax credits are higher the lower the average salary and the fewer FTEs the growing business has.

Created as part of the Affordable Care Act, the Small Employer Health Insurance Tax Credit is already benefiting businesses with 25 or fewer employees. In fact, the Internal Revenue Service is encouraging small businesses to explore and, if qualified, claim this unique health insurance coverage tax credit.

Statistics from 2011 reveal that two out of five businesses in the nation will qualify for these tax credits. This could affect 19.3 million employees and possibly provide $15.4 billion in tax credits to small businesses.

The small employer credit

A growing business that provides health care coverage is eligible for the Small Employer Health Insurance Tax Credit if, for the tax year, they have 25 or fewer full-time equivalent employees who are paid an average annual salary of less than $50,000. However, while any qualifying growing business is eligible to receive the Small Business Health Care Tax Credit, it works on a sliding scale and is specifically targeted for those businesses with low- and moderate-income workers. Bottom line—the tax credit is highest for growing businesses that have fewer than 10 employees who are paid an average of $25,000 or less. In other words, the smaller the business, the bigger the credit.

As mentioned, the maximum credit is 35% this year and rises to 50% of the annual premium paid for 2014 and thereafter but, unfortunately, the full amount of the credit is available only to an employer with 10 or fewer full-time equivalent employees and whose employees have average annual full-time equivalent wages from the employer of less than $25,000.

To qualify for tax credits, the employer must also contribute at least 50% toward the employee's premium cost. Owner's salaries and owner's family's salaries are not counted in determining the average salary.

New IRS rules

On the downside, a small business can only qualify to receive this unique tax credit for two years, there's extensive paperwork to fill out, and only profitable growing businesses can actually benefit from the tax credit since a tax bill is needed to be offset. The IRS form for claiming the tax credit—Form 8941, Credit for Small Employer Health Insurance Premiums—has 10 pages of instructions and contains seven worksheets.

Under guidelines recently introduced by the IRS, to take advantage of this tax credit, small employers (those with 25 or fewer full-time equivalent employees) must have in place a contribution arrangement through which the growing business can make a non-elective contribution on behalf of each employee who enrolls in a qualified health plan (QHP) offered by the employer.

The contribution amount must be at least 50% of the QHP's premium cost. In addition, the average annual wages of the employer's FTEs cannot currently exceed $50,000. Through 2013, the maximum credit is 35% of premiums paid by small business employers. For tax years beginning in 2014 or later, the maximum credit will increase to 50% of premiums paid by employers.

And, as mentioned, the IRS has said certain higher-income individuals, specifically sole proprietors, partners in partnerships or shareholders owning more than 2% of the stock in an S corporation, and any owners of more than 5% of other businesses, don't have to be counted as employees when calculating the average wage. Although the tax law doesn't specifically refer to spouses, the IRS says that spouses are nevertheless excluded from the definition of employee for those purposes.

The IRS's guidelines also contain transition rules if an eligible small employer's plan year begins on a date other than the first day of its taxable year. Since about 30% of employers in the small group market don't have plans that run on a calendar year, the new rules mean premiums paid by the growing business under their old plans, as well as what they're paying when they switch to the exchange, will be eligible for the tax credit.

Marketplaces, exchanges and SHOP

One of the ACA's key features was the creation of a Small Business Health Options Program (SHOP). For employers with fewer than 50 employees, the SHOP exchange—the federal government's website—helps small businesses comparison shop for employee plans.

Although SHOP promised to offer small employers a low-hassle way to provide health benefits, enrollment for SHOP coverage was postponed for a month beyond its original date, until November 1, leaving precious little time for growers to explore their options on the exchange, pick their plans and educate employees about their healthcare options before they kick in January 1. Beginning in 2016, the SHOP will be open for employers with up to 100 full-time equivalent employees.

The changes, they're coming

Every business will see a number of important changes to the tax credit for tax years beginning in 2014 and forward. As mentioned, the credit amount will increase to 50% of the health insurance premiums paid by eligible small employers. Cost-of-living adjustments will be made to the average annual wage phase-out amounts. (The credit is phased out gradually when average annual wages exceed certain amounts.)

Another difference involves the two-year limit on claiming the credit. Before 2014, there wasn't a time limit on taking the credit, so employers that qualified could have taken it in 2010, 2011, 2012 and 2013. Beginning in the 2014 tax year, there will be a two-year limit, beginning with the first year the employer files Form 8941, Credit for Small Employer Health Insurance Premiums. However, employers that took the credit before 2014 can take the credit for two more years, 2014 and later.

Paperwork

Not too surprisingly, employers providing workers with healthcare benefits will also be required to comply with the administrative reporting requirements. In general, the business must use the IRS's Form 8941 to calculate the credit and include the amount as part of the general business credit on their annual income tax return.

According to the Government Accountability Office (GAO), Congress's investigative arm, fewer small employers claimed the Small Employer Health Insurance Tax Credit in tax year 2010 than were estimated to be eligible. While only 170,300 small employers claimed this tax credit in 2010, from an estimated eligible pool that ranged from 1.4 million to 4 million, they saved more than $468 million.

Among the factors reportedly limiting the credit's use is that most very small employers—83% by one estimate—don't offer health insurance. According to many experts, the credit isn't large enough to incentivize employers to begin offering insurance. Complex rules on FTEs and average wages, as well as the time needed to calculate the credit, are reportedly limiting its use.

As the tax filing deadline approaches for many small growing businesses, owners and managers are looking for ways to reduce their operation's tax bills. Although the ACA doesn't require that a small business provide health insurance, it does offer tax credits for those that choose to provide it to their employees for the first time or maintain the coverage they already have.

Although one in four small businesses doesn't currently offer health insurance to their workers, that insurance may now be affordable thanks to the ACA. In fact, the ACA will allow 83% of currently uninsured small businesses to become eligible for the healthcare coverage tax credit. What's more, many small business owners who currently buy their own individual healthcare coverage in the private market may be eligible to take advantage of new cost savings as well.

The IRS has published guidelines on the small business tax credit that, among other things, address the eligibility requirements for employers, offer suggestions on calculating the credit, and explain the effect on the growing operation's estimated tax bill, alternative minimum tax, as well as deductions. Additional guidance on whether to take into account spouses when computing an employer's FTEs, defines average annual wages and premiums paid.

Finally, for a growing business eligible for the tax credit for the 2013 tax year but that forgot to claim it on the annual tax return, there's still time to file an amended return. Obviously, in order to claim the tax credit missed on a previously filed tax return or to fully understand the impact of the Small Employer Health Insurance Tax

Credit on the growing operation, professional assistance is strongly recommended. **GT**

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