

REFORM TOPIC SUMMARY: *Small Business Tax Credit Calculation*

May 14, 2010

Small Business Tax Credit Calculation

Lesser of **employer portion** of premium paid on behalf of employee (must be at least 50%) in a qualifying arrangement or the amount the employer would have paid of the **average premium** of the small market for the region (HHS to define)

Example: For 2010 tax year employer has nine FTEs with average annual wages of \$23k per FTE. The employer pays \$72,000 in employee health premiums (which does not exceed the state's average small group premium). All other required provisions are met. The credit for 2010 equals \$25,200 ($35\% \times \$72,000$).

What is the maximum amount of the tax credit?

For 2010 through 2013, the maximum tax credit is 35% of the employer's contribution amount. How is the credit reduced if the number of FTEs exceeds 10 *or* average annual wages exceed \$25k?

Example: Employer has 12 employees; average annual salary of \$30k; and \$96,000 of acceptable premium contribution.

1. Initial credit amount would be $.35 \times \$96,000 = \$33,600$
2. Credit reduction for FTEs in excess of 10 ($33,600 \times 2/15$) = \$4,480
3. Credit reduction for average salary in excess of \$25,000
($33,600 \times \$5,000/\$25,000$) = \$6,720
4. Final credit is $\$33,600 - \$4,480 - \$6,720 = \$22,400$

Calculating FTEs

1. For 2010 employer has five employees, three at 2080 hours, one at 1040 hours and one at 2300 hours
2. Hours in excess of 2080 are reduced to 2080
3. Number of FTEs is $(3 \times 2080) + (1 \times 1040) + (1 \times (2300 - 220))$ or $6240 + 1040 + 2080 / 2080 = 4.5$ rounded to the next lowest whole number or four

Calculating average annual wages

1. For 2010 the employer paid \$240,000 in wages and has 10 FTEs so the employer's average wages would be $\$240,000/10 = \$22,400$ rounded to the nearest \$1,000, or \$22,000

What is the likely process a business would use to apply?

1. Since the credit applies every month it is likely that the company's CPA firm would help them with the calculations at year end and apply for the tax credits. Refer the company to their CPA (we may engage a CPA firm for internal references, if needed)

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