



Small Employer Health Insurance Credit **Frequently Asked Questions**

1. What is the Small Employer Health Insurance Credit?

The Small Employer Health Insurance Credit (“Small Employer Credit”) provides an income tax credit to certain Small Employers who provide Qualifying Health Coverage. The Small Employer Credit was enacted as part of the 2010 Health Care Reform legislation that was signed into law on March 23, 2010.

2. Who is a Small Employer?

A Small Employer is an employer who has fewer than 25 Full-Time Equivalent Employees (FTEE) during the tax year with an Average Annual Wage per FTEE for that same tax year of less than \$50,000.

3. Does the Small Employer Credit apply to not-for-profit organizations?

Yes, not-for-profit organizations that are tax-exempt under I.R.C. § 501(c) (“tax-exempt employers”) may be eligible for the Small Employer Credit.

4. Is the Small Employer Credit available to Small Employers regardless of the type of business entity in which the Small Employer conducts its business?

Yes. The Small Employer Credit is available to any eligible Small Employer regardless of whether the Small Employer is a C corporation, an S corporation, a partnership, a limited liability company, or a sole proprietorship.

5. What is the Maximum Credit available?

For tax years 2010 through 2013, the Maximum Credit available for Small Employers is up to 35%.

6. For what tax years will the Small Employer Credit be available to Small Employers?

The Small Employer Credit is available for the 2010 tax year, as well as for tax years 2011, 2012, and 2013. In 2014 and 2015, the Small Employer Credit will continue, but will be subject to different rules

7. What happens to the Small Employer Credit in 2016?

The Small Employer Credit expires as of January 1, 2016. However, any unused Small Employer Credit for any calendar year prior to 2014 can be carried forward for up to 20 years.

8. Are all Small Employers eligible for the Maximum Credit?

No, only Small Employers with 10 or fewer FTEEs and whose Average Annual Wage per FTEE is \$25,000 or less, will be eligible for the Maximum Credit. For Small Employers with more than 10

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FTEEs but less than 25 FTEEs and whose Average Annual Wage per FTEE is more than \$25,000 but less than \$50,000, a reduced credit may be available.

9. If an Employee pays all or a portion of the premium for a Qualifying Health Coverage with pre-tax dollars, are the pre-tax contributions considered to be Employer-Paid Premium for purposes of the Small Employer Credit?

No, premiums paid under the Small Employer's Section 125 (cafeteria) plan with pre-tax dollars are not considered Employer-Paid Premiums for purposes of the Small Employer Credit. Only the premiums actually paid by the Small Employer are considered Employer-Paid Premium.

10. How does an eligible Small Employer claim the Small Employer Credit?

An eligible Small Employer claims the Small Employer Credit on IRS Form 8941 that is filed with the Small Employer's federal income tax return.

11. Is the Small Employer Credit a refundable credit for Small Employers other than tax-exempt employers?

No, the Small Employer Credit is not refundable, but any unused credit can be carried back one year or carried forward 20 years; except, that any 2010 unused Small Employer Credit can only be carried forward.

12. If a Small Employer is eligible for the Small Employer Credit, can that Small Employer also deduct, for federal income tax purposes, the cost of the Employer-Paid Premium for the Qualifying Health Coverage provided to its Employees?

If the Small Employer Credit is claimed on the Small Employer's federal income tax return, the amount of any deduction otherwise available for the Employer-Paid Premium on the Qualifying Health Coverage(s) must be reduced by the amount of the Small Employer Credit. The Small Employer can deduct the full cost of the employer-paid premium for Business Owners and their Family and Household Members who are not treated as Employees for purposes of the Small Employer Credit.

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