



## SIG's HCR Update - Small Business Tax Credit

Clients and Friends:

May 21, 2010

As a part of the recently passed federal Health Care Reform, many small employers will be able to take a 2010 tax credit for providing health insurance to their employees. We believe that many of SIG's small-group clients could be eligible for this tax credit.

A qualifying employer is one where, for the applicable tax year:

- there are fewer than 25 full-time equivalent employees (FTEs)
- the average annual gross income of its employees is less than \$50,000 per FTE
- the premiums are being paid under a qualifying arrangement (meaning in part that the employer pays at least 50% of the health plan's value).

Generally, owners are not considered employees in determining either the average wage or the employee count.

Employers with fewer than 10 FTEs who average less than \$25,000 in annual wages will be able to take the full tax credit. Here's an example from the IRS FAQs where the maximum 35% tax credit applies.

**IRS Example: For the 2010 tax year, a qualified employer has 9 FTEs with average annual wages of \$23,000 per FTE. The employer pays \$72,000 in health care premiums for those employees (which does not exceed the average premium for the small group market in the employer's state) and otherwise meets the requirements for the credit. The credit for 2010 equals \$25,200 (35% x \$72,000).**

As you can see, the tax credit can be quite significant. For tax years from 2010 to 2013, the maximum credit available to for-profit employers is 35% of the employer's premium expenses, not to exceed 35% of the state's "average annual premium" as determined by the Secretary of Health and Human Services (HHS). Washington State's annual averages for 2010 are \$4,543 for employee-only coverage and \$10,725 for family coverage.

Employers with 11-25 employees or whose average employee wage is between \$25,000 and \$50,000 will have a reduced tax credit, based on an IRS-provided formula.

We're happy to report that tax-exempt employers can be qualifying employers as well, but separate rules apply. The maximum tax credit available to tax-exempt employers is 25% of the employer's eligible premium expenses, but the credit cannot exceed the Medicare tax to be paid by the tax-exempt organization.

We trust that you will be working with a qualified tax specialist in order to take full advantage of the credit available to you. Of course, please feel free to contact your Sprague Israel Giles account manager if you would like additional information about this or any other part of Healthcare Reform.

To view the IRS FAQ on the new tax credit, go to <http://www.irs.gov/newsroom/article/0,,id=220839,00.html>

To view the average small group premiums by state, go to <http://www.irs.gov/pub/irs-drop/rr-10-13.pdf>

To view the IRS "3 Simple Steps" Document, go to [http://www.irs.gov/pub/irs-utl/3\\_simple\\_steps.pdf](http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf)

If you have any questions or concerns regarding implementation or how this will affect your group or your employees, please feel free to contact your Account Manager or call the Benefits Helpline at 206-957-7066 (toll-free 800-946-7066). You can also send an email to [Questions@SIGinsures.com](mailto:Questions@SIGinsures.com).

This and additional HCR updates can be found on our website <http://www.siginsures.com/employeebenefits.html>. Look for "HCR Updates."

**Questions? Call your Account Manager directly or the Benefits Helpline at 206.957.7066 [www.SIGinsures.com](http://www.SIGinsures.com)**