

Tax exempt organizations are eligible for the new small business health care tax credit

The Small Business Health Care Tax Credit is effective for tax years beginning January, 2010. This is a very targeted program. It is only available to employers with 25 employees or less who provide health insurance and pay 50% of the cost of the insurance.

For tax exempt employers the credit covers 25% of employers' contributions for employee insurance premiums. Once the new health insurance exchanges go online in 2014, the credit will be increased to 35% but the credit will only apply for insurance purchased through an exchange and will expire after an employer has received the credit for two years.

The tax credit is only available to employers with fewer than 25 FTE (full-time equivalent) employees whose average wage does not exceed \$50,000 per employee. Indeed, the full credit is only available to employers with 10 or fewer FTEs with an average annual wage of \$25,000 or less and phases out above those levels.

The employer also must maintain a "qualifying arrangement." A "qualifying arrangement" is health insurance coverage under which the employer pays at least 50% of the cost for each enrolled employee. An employer will meet this uniformity requirement for the 2010 taxable year if it contributes at least 50% of the premium for single (employee-only) coverage for each enrolled employee, even if the employer doesn't pay the same percentage of premiums for each employee. And, again for 2010 only, if an employer offers coverage that is more expensive than single coverage (such as family coverage), it will meet this uniformity requirement if the amount it pays for each employee is at least 50% of the premium for single coverage (even if that amount is less than 50% of the premium for an employee's more expensive coverage).

Note that only the employer's share of the premium is counted for purposes of the credit and that any portion of the premium paid through a salary reduction arrangement under a Section 125 cafeteria plan is not treated as paid by the employer. Also, the amount of employer contributions taken into account in determining the credit cannot exceed the payment the employer would have made had the average premium for small group coverage in the rating area been substituted for the actual premium paid.

. Not only are premiums for hospital or medical insurance counted, but also premiums paid by the employer for dental, vision, long-term care, Medicare supplement, and other specific forms of limited-coverage insurance are counted. However, the different types of premiums are not aggregated for the purposes of determining it is a qualifying arrangement. Each arrangement must have a separate determination of whether it is a qualifying arrangement.

Since tax exempt employers are to set off the credit against payroll taxes, the maximum amount of the credit cannot exceed the total amount of income tax and Medicare tax required to be withheld from employee's wages for the year and the employer share of Medicare tax on employees' wages.

Action: This will apply to very few employers. But if you have less than 25 full time employees whose annual wage is less than \$50,000 and you pay for 50% or more of the employee only premium, then you should take advantage of this program.