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FINANCIAL FOCUS



LGT Financial Advisors LLC
A Registered Investment Advisor

Trust, Confidence, Experience

Health-Care Reform Creates * A Registered Investment Advisor

Small Business Tax Credit

Beginning this year, if you're a small business employer, you may be able to take advantage of the small business tax credit provided by the new health-care reform legislation. To be eligible for the tax credit, you must be a qualified small business employer who contributes at least 50% of the premium cost of a qualifying health plan (health insurance coverage purchased from a licensed insurance company).

Qualified small business employer

To be a qualified small business employer, you must employ fewer than 25 full-time equivalent employees (FTEs) during the taxable year, and your employees must have annual full-time equivalent wages that average less than \$50,000 (indexed to the Consumer Price Index for Urban Consumers beginning in 2014). The full amount of the credit is available only if you have 10 or fewer FTEs whose average annual full-time equivalent wages is not more than \$25,000 (also indexed to the Consumer Price Index for Urban Consumers beginning in 2014).

Full-time equivalent employees

Calculate your FTEs by totaling all hours worked by all your employees during the tax year, and dividing the result by 2080. For purposes of the calculation, the maximum number of hours that can be attributed to an individual employee is 2080.

Average full-time equivalent wages

To determine annual full-time equivalent wages, divide the total wages paid for the year, divided by the number of FTEs, rounding the result down to the nearest \$1,000. Hours and wages paid for seasonal employees aren't included unless they worked more than 120 days during the taxable year.

Maximum credit

The full credit for years 2010 through 2013 is equal to 35% of the lesser of (1) the amount of contributions you made on behalf of employees during the taxable year for qualifying health coverage, and (2) the amount of contributions that you would have made during the taxable year if each employee had enrolled in coverage with a small business benchmark premium.

The benchmark premium is the average total premium cost in the small group market for employer-sponsored coverage in your state. The premium and the benchmark premium vary based on the type of coverage provided to your employees.

Beginning in 2014, the maximum credit is equal to 50%, determined in the same manner as in years prior to 2014. However, the credit is only available if you purchase employee health insurance coverage through a state Exchange. The credit is available for a maximum coverage period of two consecutive years, beginning with the first year in which you offer one or more qualified plans to your employees through an exchange.

Sliding scale tax credit

The tax credit is reduced if you have more than 10 FTEs and/or if the average annual wages exceed \$25,000.

If you have more than 10 FTEs, the credit reduction is determined by multiplying the amount of the maximum credit by the number of FTEs exceeding 10, then dividing this total by 15.

If your average annual wages exceeds \$25,000, the credit reduction is calculated by multiplying the maximum credit amount by the average annual wages in excess of \$25,000, then dividing this total by \$25,000.

If you have more than 10 FTEs and average annual wages in excess of \$25,000, the credit reduction is the sum of the total of the two reductions.

Example: *In 2011, you have 11 FTEs with average annual wages of \$30,000, and your premium cost for the year is \$100,000. To determine the reduced credit:*

1. *Maximum credit before reduction: $(35\% \times \$100,000) = \$35,000$*
2. *Credit reduction for FTEs exceeding 10: $(\$35,000 \times 1/15) = \$2,333$*
3. *Wages exceeding \$25,000: $(\$35,000 \times \$5,000/\$25,000) = \$7,000$*
4. *Total credit reduction: $(\$2,333 + \$7,000) = \$9,333$*
5. *Total credit in 2011: $\$25,667 (\$35,000 - \$9,333)$*

Tax-exempt organizations

The tax credit is also available if you are a 501(c) organization exempt under IRC Section 501(a). However, the credit percentage for 2010, 2011, 2012, and 2013 is 25% (rather than 35%), and the credit percentage for taxable years beginning in years 2014 and later is 35% (rather than 50%). You can only apply the tax credit against your liability for payroll taxes.