

# The Health Care Package Can Mean Money in Your Pocket

by Ann Fleming, CPA

Health Care Reform ... I know you are sick of hearing about this topic, but don't stop reading now. While this article is not a commentary about politics or meant to be a substitute for professional or technical advice, it is meant to save you money – specifically those of you who fit the small business and nonprofit category.

The Health Care bill is swamped with litigation, and its future implications are still unknown. Setting most of that aside, the opportunity exists now to save or make a few bucks. Isn't that why we went into business in the first place?

First: The Prize. A tax credit, dollar for dollar, which can be used against regular and AMT tax liabilities. How much? Up to 35% (25% for nonprofits) of the cost of your health care premiums paid for your employees. Of course, nonprofits do not pay tax, so instead get a cash back incentive. Have I got your attention now?

Secondly: The criteria. Your business must meet the IRS definition of a “qualified small business”. The definition basically equates to a small employee base - less than 25 FTE (full-time equivalent) employees, and a low to moderate wage base - average annual wages of less than \$50,000 per employee. Because the formula is based in part on the number of FTE employees, not the number of employees, an employer with greater than 25 employees may still be eligible if a large number of their employees are part-time. If you fit into this category and pay at least a portion of your employees' health insurance premiums, read on.

The law went into effect in March of 2010, however, the credit can be taken against premiums taken prior to March – the full year. 2010 is also a transition year and the requirement to pay at least 50% of an employee's premiums is reduced only for 2010. So even if you only paid a small portion of your employee's health insurance premiums, you can still benefit from the credit in 2010. However, in 2011 and going forward, you will be required to pay at least 50%.

The credit is taken on a business return as a general business credit, and pass-throughs, such as partnerships and S Corporations, pass the credit through to their shareholders to be taken on their individual returns. For example, a business with 10 FTE employees and an average annual wage of \$25,000 per employee and health insurance premium costs of \$70,000 can receive a credit of \$24,500 against their tax liability – both regular and AMT.

Please don't discount all the other business benefits of providing health insurance for your employees – employee retention, quality, ease of recruitment. None of these should be taken lightly while you have your eyes on the future of your business and should be part of your strategic plan. But now the US Treasury has recognized and is rewarding your efforts.

I recommend that before you dismiss the possibility that this credit may apply to your business, that you run the numbers. Even if you barely fit within the criteria, you can still benefit from a more limited tax credit. The calculation can be daunting (it was created by the IRS remember?) So create a spreadsheet with the following details:

- a) Employee name,
- b) Number of hours worked,
- c) Annual salary and
- d) Dollar amount of premiums paid

Give this information to your accountant and ask that he/she do the calculation for you. I have prepared a simple worksheet to compile the information and calculate the credit which I can e-mail to you if you wish.

Wishing you success in your business now and in the future.

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