

Tips for Taxpayers

A 35% Tax Credit for Employer Paid Health Insurance

Action item:

Determine the number of full time equivalent employees and average annual wages.

Beginning in 2010, a small business employer may be eligible for a tax credit of 35% of the health care coverage they provide to their employees. **The employer must meet three criteria:**

1. Employ 25 or fewer full time equivalent employees,
2. Pay average annual wages below \$50,000, and
3. Pay at least 50% of the cost of the employees premiums.

The **key components** are to determine the number of employees and average annual wages.

Number of employees equal the sum of -

Full time equivalent: Total hours of part-time employees divided by 2080, plus

Full time employee: Number of employees who work at least 40 hours per week.

Average annual wages equal - Total annual wages paid to employees divided by the number of employees calculated above.

The credit is reduced by 6.667% for each full time employee in excess of 10 and by 4% for each \$1,000 that average annual compensation paid exceeds \$25,000. In addition, the health insurance deduction is reduced by the amount of the credit the employer takes on his tax return.

Example for Joe the Plumber

Joe employs 10 employees, pays total annual wages of \$250,000 ($250,000 / 10 = \$25,000$ per employee) and pays employee health care costs of \$70,000. Since Joe meets the criteria established above, he is eligible for a credit of \$24,500 ($\$70,000 * 35\%$) and a deduction for health care of \$45,500 ($\$70,000 - \$24,500$ credit).

PLANNING TIPS

- **An unused credit amount can be carried forward to reduce the tax liability in a future year**
- **The credit can be used in determining your estimated tax payments**
- **Seasonal workers qualify if they work more than 120 days in the year**

This article was written by Lisa Carlon, CPA, a manager at Bosma Group who specializes in the success of small businesses and international taxation. Bosma Group is a CPA firm dedicated to serving closely held growing businesses. Bosma Group is the ONLY CPA firm in Northern Nevada that has an international tax expert in their office. Call Mike or Lisa at 775-786-4900 or by email at mbosma@thebosmagroup.com, lcarlon@thebosmagroup.com.

