



Introduction

The Patient Protection and Affordable Care Act (PPACA) established a small business healthcare tax credit as an incentive for small employers to provide health insurance coverage to their employees. Until guidance was issued on December 2, 2010, it was unclear precisely who was eligible to apply for this credit. **IRS Notice 2010-82** clarified that this credit is indeed available to churches and includes medical coverage purchased through self-funded denominational church healthcare plans.

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This publication is intended to provide a timely, accurate, and authoritative discussion of the Small Employer Healthcare Tax Credit. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this document provides accurate information, there may be changes resulting from IRS or judicial interpretations of the Tax Code, new tax regulations, or technical corrections that occurred after the creation of this document that are not reflected in the text.



Eligibility for the Tax Credit

Requirements

To be eligible, your ministry must meet **all three** of the following requirements:

1. You must have fewer than 25 full-time equivalent employees (FTEEs).
2. Your average employee wages must be less than \$50,000.
3. You must pay a uniform percentage for all employees receiving coverage, and this percentage must be at least 50% of the total premium cost of single (employee-only) coverage.

Special transition rule for 2010 tax year

Even if you did not meet the uniformity requirements in 2010 (#3 above), you may still be able to apply for the credit if you paid at least 50% of the premium for each employee enrolled in coverage.

***For example:** A church pays 75% of the premium for the minister and 50% of the premium for all other employees enrolled in the same health plan. In 2010, they would qualify to apply for the tax credit (if they met all other requirements). However, they would not qualify in 2011-2013 because they did not meet the uniformity requirement.*

Calculating your number of Full-Time Equivalent Employees (FTEEs)

To calculate the number of full-time equivalent employees (FTEEs):

1. **Add up the total hours worked** by all employees during the year. The maximum number of hours you may count for any single employee is 2,080.
 - a. Include:
 - i. All regular full-time and part-time employees, **even those not covered under the health plan.**
 - ii. Ministers for Tax Purposes, even if they do not pay FICA taxes.
 - iii. Employees who terminated employment during the year.
2. **Divide the number of total hours worked by 2,080.** If the result not a whole number, round *down* to the nearest whole number. If the number is less than 25, go to the next step and calculate the average wages of your employees. If the number is 25 or higher, **STOP.** Your employer does not qualify for the Tax Credit.

You may use different methods to calculate employees' hours of service for different employee classifications – as long as the classifications are reasonable and consistently applied.

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Calculating average wages

To calculate average wages:

1. **Add up the FICA wages for *all* employees.**
 - a. Include:
 - i. All regular full-time and part-time employees, **even those not covered under the health plan**. Do NOT include wages for ministers who do not pay FICA taxes.
 - ii. Employees who terminated employment during the year.
2. **Divide the amount of total wages by the number of FTEEs.** If this amount is not a multiple of 1,000, round *down* to the nearest \$1,000.

Who counts toward FTEEs? Who counts toward wages?

There are three employee types to consider:

1. Minister who is an employee. Issued a W-2. Pays SECA taxes, does not have FICA wages. Counted in the calculation of FTEEs. Wages NOT counted in calculation of average wages.
2. Self-employed minister (such as traveling evangelist, interim pastor; treated as a contractor). Issued a 1099. NOT counted in the calculation of FTEEs. Wages NOT counted in calculation of average wages.
3. Non-ministerial employees. Issued a W-2. Paid FICA wages. Included in both FTEEs and wages.

Satisfying the uniformity requirement

1. You must make contributions on behalf of all employees enrolled in the healthcare plan. This contribution requirement does not apply to dependent coverage.
2. You must contribute at least 50% of the premium cost of employee-only coverage. For employees with family or dependent coverage, you only have to pay at least 50% of the premium for employee-only coverage for that employee – even if it is less than 50% of the cost of the dependent or family coverage.
3. You must make a uniform contribution – the same percentage – for all employees covered in a specific healthcare plan, regardless of classification.

Do you offer more than one healthcare plan?

You may satisfy the uniformity requirement on a plan-by-plan basis.

For example: A church has Healthcare Plan A for ministers and Healthcare Plan B for lay employees. The church pays 100% of premiums for all employees enrolled in Healthcare Plan A. Therefore, the church can apply for the Tax Credit with respect to the minister coverage. If the church also makes uniform contributions – say, 50% of premium – for all employees in Healthcare Plan B, then the ministry can apply for the Tax Credit for both plans. This is true even though the two contribution percentages are not identical.

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How much might my ministry qualify for?

The amount of the Tax Credit is based on three variables:

1. The percentage of eligible healthcare expenses for which you qualify.
2. Your eligible premium expenses.
3. The tax year.

Figuring your ministry's applicable percentage

This percentage is prorated based on your ministry's number of full-time equivalent employees (FTEEs) and average wages. The more employees you have and/or the higher your average wages, the lower your ministry's applicable percentage.

- **If you have 10 or fewer FTEEs with average wages of less than \$25,000:** The full amount of the Tax Credit is available.
- **If you have more than 25 FTEEs, and/or average wages exceeding \$50,000:** No Tax Credit is available.

See Appendix A on page 9 for a chart that will show your ministry's applicable percentage.

Figuring your allowed healthcare costs

Now that you've determined the appropriate percentage, you'll need to figure your allowed healthcare costs. It's the lesser of two amounts: your actual costs (what you contribute toward health coverage for your employees and their dependents) vs. the amount you would have paid if your plan premiums were equal to the average small group insurance premium for your state (which determines the "maximum costs" allowed for your state).

To locate the average insurance premium for your state, see the instructions included with **IRS Form 8941**.

Once you figure your allowed healthcare costs, you can apply your applicable percentage to that amount and figure the tax credit for which you may be eligible.

How long it's available

The Tax Credit became available beginning in 2010, and is only available for a limited time.

- From 2010 to 2013: The Tax Credit can equal up to 25% of allowed employer healthcare costs (*see previous section on how to calculate your potential credit*).
- From 2014 to 2016: The maximum tax credit will increase to 35% of premiums paid by eligible tax-exempt organizations – but only for coverage obtained through the yet-to-be-created health insurance exchanges.

Thus, as it currently stands, the Tax Credit will no longer be available to tax-exempt employers in self-insured church plans after 2013.

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How does the credit work?

The Tax Credit is a reimbursement

The Tax Credit is a reimbursement against certain payroll tax obligations. Because of this, the total amount of the Tax Credit cannot exceed the total amount of:

- Federal income tax and Medicare tax withheld from employee wages, and
- The ministry's share of Medicare tax on employees' wages for the year.

Is your minister the only church employee?

If your only church employee is a Minister for Tax Purposes, your church may ask the minister to allow the church to withhold federal income taxes from his compensation so your ministry can take full advantage of the Tax Credit. To do this, have your minister complete a Form W-4 (Withholding Allowance Certificate). Please note, a withholding agreement generally requires the church to withhold and remit the minister's federal income taxes each quarter. Consult the Federal Reporting Requirements for Churches section of our annual Ministers Tax Guide for more information on withholding and other IRS requirements.

How to claim the credit

If you're eligible and decide that pursuing the credit is right for your ministry, use Form 8941 to calculate your refundable Tax Credit. Then claim that Tax Credit on Line 44f of Form 990-T. **Note for 2010 taxes: You must submit the Form 990-T by *no later than May 15, 2011* to claim the credit on your 2010 taxes.**

Additional Information

For more information visit the IRS website at www.irs.gov:

- For further explanation of the tax credit: search for "Small Business Health Care Tax Credit" or "Small Business Health Care Tax Credit Frequently Asked Questions" on the www.irs.gov site.
- For the full text of the IRS's communication: See Notice 2010-82
- IRS forms:
 - » To calculate the Tax Credit: See Form 8941.
 - » To find a list of average insurance premiums by state: Instructions included with Form 8941.
 - » To claim the Tax Credit: Revised Form 990-T.

You may download forms 8941 and 990-T, along with their respective instruction booklets, from the Small Business Healthcare Tax Credit page under www.GuideStoneInsurance.org/healthreform.

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Examples

Example 1: Basic calculation (healthcare premium less than state average)	
Number of employees	Five total. 1 minister, 4 lay employees (2 who work full-time and 2 who work part-time).
Number of hours worked	The minister and the full-time employees each work 2,000 hours/year. The 2 part-time employees each work 1,500 hours/year.
Wage information	Staff was paid as follows: Minister: \$60,000; Full-time employee #1: \$35,000; Full-time employee #2: \$25,000; Part-time employees: \$12,500 each. <i>Note: All wages, including those paid to the minister, are W-2 wages.</i>
Healthcare plan information	The minister and the two full-time employees are enrolled in the church's health plan. The cost of single employee-only healthcare coverage is \$5,000, which is less than the state average premium. The church pays 75% of this premium on behalf of each covered employee, which equals \$3,750 for each employee.

STEP ONE: Calculate the number of full-time equivalent employees (FTEEs)

Add up the hours worked by each employee (*including* the minister) for the year. Then divide by 2,080 and round the resulting amount down to the next whole number:

2,000 (minister)	
2,000 (EE 1)	
2,000 (EE 2)	
1,500 (EE 3)	
+ 1,500 (EE 4)	
9,000 total hours	

$9,000 \div 2,080 = 4.3$

Total number of FTEEs = 4 (4.3 rounded down to next whole number)

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STEP TWO: >> Calculate the average wages

Add the wages of all FICA employees, then divide by the number of FTEEs (the result of STEP ONE). Round the result down to the nearest 1,000.

Note: Although the minister's hours are counted for purposes of determining FTEEs in STEP ONE, his wages are not counted for purposes of determining average wages in STEP TWO because he has no FICA wages.

\$ 35,000 (EE 1)
25,000 (EE 2)
12,500 (EE 3)
+ 12,500 (EE 4)
<hr/>
\$ 85,000 total wages

$\$85,000$ (total wages) \div 4 (number of FTEEs) = $\$21,250$

Average wages = $\$21,000$

STEP THREE: >> Calculate amount of possible Tax Credit

\$ 3,750 (employer Cost)
x 3 (covered employees)
<hr/>
\$ 11,250

Tax Credit = $25\% \times \$11,250$ (Employer Cost) = $\$2,812.50$

STEP FOUR: >> How much Tax Credit is this church eligible for?

Because this church has fewer than 10 FTEEs and average wages are under \$25,000, the church is eligible for the full Tax Credit of 25%. However, the credit may not exceed the employer's portion of payroll taxes, which includes federal income tax withholding and Medicare taxes (both the employer and the employee share).

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Example 2: Healthcare Plan Premium is greater than state average for small group market. Example market: Alabama

Number of employees, hours worked, wage information	Same as Example 1.
Healthcare plan information:	<ul style="list-style-type: none"> The minister and the two full-time employees are enrolled in the church's health plan. The cost of single employee-only healthcare coverage is \$5,000. According to the Instructions to Form 8941, the state average premium for small group markets in Alabama is \$4,441. Because the church's healthcare plan premium is greater than the Alabama state average, the cost of employee-only healthcare coverage is limited to \$4,441 for purposes of calculating the Tax Credit. The church pays 75% of the health plan premium on behalf of each covered employee. Note: For the purposes of calculating the Tax Credit, the church would use 75% of the state average premium (instead of their own health plan premium), which equals \$3,330.75.

STEP ONE: and **STEP TWO:** Same as Example 1.

STEP THREE: Calculate amount of possible Tax Credit

The Tax Credit is limited to the amount the church would have paid if each employee taken into account were covered by a policy with a premium equal to the average premium for the small group market in the state. Because the state average premium is less than the actual cost under the health plan, the church must use the state average premium (i.e., \$4,441 in this example) for purposes of determining the amount of Tax Credit.

Employer Cost (if cost was equal to state average premium) = 75% x \$4,441 = \$3,330.75

$$\begin{array}{r}
 \$ \quad 3,330 \\
 \times \quad \quad 3 \text{ (covered employees)} \\
 \hline
 \$ \quad 9,992.25
 \end{array}$$

Tax Credit = 25% x \$9,992.25 (Employer Cost) = \$2,498.06

STEP FOUR: How much Tax Credit is this church eligible for?

Because this church has fewer than 10 FTEEs and average wages are under \$25,000, the church is eligible for the full Tax Credit of 25%. However, the credit may not exceed the employer's portion of payroll taxes, which includes federal income tax withholding and Medicare taxes (both the employer and the employee share).

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Example 3: Larger church with higher average wages	
Number of FTEEs	Under STEP ONE: The church has determined that it has 12 FTEEs.
Average Wages	Under STEP TWO: The church determined that it pays average wages of \$27,000.
Healthcare Plan Information	<ul style="list-style-type: none"> The church has enrolled 10 employees in its church health plan. The cost of single employee-only healthcare coverage is \$5,000, which is less than the state average premium. The church pays 75% of this premium on behalf of each covered employee, which equals \$3,750 for each employee.
Federal Withholding and Tax Information	The total amount of federal income tax and Medicare tax the church is required to withhold from employees' wages and the church's share of Medicare tax on employees' wages for the year was \$6,000.

STEP THREE: Calculate amount of Tax Credit

$$\begin{array}{r}
 \$ 3,750 \\
 \times 10 \text{ (covered employees)} \\
 \hline
 \$ 37,500
 \end{array}$$

Tax Credit Percentage under Appendix A = 17%

$$\text{Tax Credit} = 17\% \times 37,500 = \$6,375$$

Total Income Tax Withholding and Medicare Taxes = \$6,000

$$\text{Tax Credit} = \$6,000$$

Note: Because the total amount of the employer's portion of payroll taxes, which includes federal income tax withholding and Medicare taxes (both the employer and the employee share), is less than the maximum amount of the Tax Credit available, the church will need to ask its ministers to allow the church to withhold federal income taxes from the minister's compensation in order to take full advantage of the Tax Credit.

STEP FOUR: How much Tax Credit is this church eligible for?

Because this church has more than 10 FTEEs and average wages are over \$25,000, the church is *not* eligible for the full Tax Credit of 25%. The Tax Credit percentage must be reduced in accordance with Appendix A.

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Appendix A

Small Business Tax Credit, Nonprofit Firms in 2010–2013

Average Wages						
Firm size	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000
≤10	25%	20%	15%	10%	5%	0%
11	23%	18%	13%	8%	3%	0%
12	22%	17%	12%	7%	2%	0%
13	20%	15%	10%	5%	0%	0%
14	18%	13%	8%	3%	0%	0%
15	17%	12%	7%	2%	0%	0%
16	15%	10%	5%	0%	0%	0%
17	13%	8%	3%	0%	0%	0%
18	12%	7%	2%	0%	0%	0%
19	10%	5%	0%	0%	0%	0%
20	8%	3%	0%	0%	0%	0%
21	7%	2%	0%	0%	0%	0%
22	5%	0%	0%	0%	0%	0%
23	3%	0%	0%	0%	0%	0%
24	2%	0%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%	0%