San Diego Businesses Receive Health Care Reform Notices From IRS

San Diego Business Journal

San Diego One of the first provisions of the Healthcare Reform Act to go into effect may provide relief for many San Diego employers in the form of a small business tax credit designed to assist with the cost of providing health insurance to employees, according to Notice 2010-44 issued by the Internal Revenue Service on June 1, 2010.

The IRS recently sent postcards to more than 4.4 million qualifying small businesses across the country, with the biggest mailbag delivered to California and its 502,923 qualifiers more than New York, Texas and Florida.

The postcards informed them of the provision and where to learn more.

The credit is effective 2010 through 2013 and provides relief for health plan premiums paid in 2010, even for those paid before the Healthcare Reform Act became law March 30.

The Notice provides guidance on how employers may qualify for the credit, how to calculate the credit, the phase-out of the credit, and a transition rule for 2010.

Its kind of like the NFL came out with a new playbook a week before the start of the season and were figuring out each new play, said Adam Brackemyre, director of federal affairs for the National Association of Health Underwriters (NAHU), the professional association for licensed health insurance agents and benefits specialists that focuses on consumer advocacy.

When it comes to employers, they know that giant health reform has passed and there are so many pieces, theyre just trying to digest it all, he said. Basically, if an employer has more than 25 employees, they probably are not eligible (for the credit) and if wages are too high, they are not going to be eligible.

Generally, the tax credit is available if the employer has fewer than 25 full-time equivalent (FTE) employees for the taxable year; if the average annual wage per FTE for the taxable year is less than $50,000; and if the employer maintains a qualifying arrangement for the taxable year, according to the Notice.

For taxable employers, the maximum credit is 35 percent of the employers premium payments, but that amount decreases as the FTE count and wages increase. For a tax-exempt employer, the credit is 25 percent, according to the

Notice.

IRS Guidelines

The number of FTEs is determined by first counting all employees full- and part-time who perform services for the employer at any time during the taxable year, according to the IRS Notice. However, sole proprietors; partners in a partnership; shareholders owning more than two percent of an S corporation; and owners of five percent or more of any other business or their family members may not be included in the head count, and their wages may not be averaged with the total for other employees.

Next, the number of hours each employee works in a given taxable year must be determined, but may not be more than 2,080 hours for a single employee. Hours for which the employee is paid for working and hours for which the employee is paid for time off, such as vacation, holidays, sick leave, disability, jury duty, military leave or leave of absence, are also counted.

No more than 160 hours may be counted for a single continuous period of paid time off.

The tax credit is available only for premiums paid by the employer under a qualifying arrangement. The health plan is a qualifying arrangement if the employer pays a uniform percentage and not less than 50 percent of the premium.

Health insurance, for purposes of the credit, comprises group health coverage as well as certain limited-scope lines of coverage such as dental or vision, long-term care, nursing home care, home health care and a number of other lines of coverage. Employer-paid premiums for any of these may be included when determining the credit.

If the employer maintains separate plans for medical and dental, each plan must satisfy the requirements separately, according to the Notice. If the employer pays 75 percent of the group medical premiums and 25 percent of the dental premiums, for example, only the medical premiums would be eligible, even if the employer pays at least 50 percent of the premiums under both plans in aggregate.

Furthermore, the amount of the aggregate, employer-paid premiums that can be used in calculating the credit is limited to the average premium for the small group market in the employers state. The premiums for 2010 are listed state-by-state in IRS Revenue Ruling 2010-21.

Capturing Relief for 2010

Brackemyre said many employers currently anchor their health plan costs by paying half of a low-cost plan while giving employees the option to buy up, or purchase a

more expensive plan at an additional cost to them. It is one way many small employers have been able to continue offering health benefits to their employees during the recession.

This arrangement disqualifies these employers from earning the tax credit, he said, but they may make changes to their benefits program in order to be compliant, such as offering and paying for one health plan option instead of multiple ones.

This or other modifications may make them eligible for the credit for the remainder of the taxable year, he said.

NAHU is tackling a lot of issues right now but we would definitely fight for the employers need to offer more than one plan to the employees, he said. The way it is issued now, it does not benefit the consumer.

Each employer will have a unique situation, he said. If an employer owns two McDonalds restaurants, for example, that employer would have to add all of the employees together and may then have too many employees to be eligible for the tax credit.

Then again, if an employer owns a gas station and a separate ice cream shop, those employees may not have to be pooled because of the distinctly different natures of these businesses, he said.

After meeting the basic criteria for the credit, businesses then have to pass an affiliation test and a common ownership test, he said. Each employers situation will be a little different.

SOURCE [1]

Source URL (retrieved on *12/07/2013 - 11:00am*):
http://www.mdtmag.com/news/2010/07/san-diego-businesses-receive-health-care-reform-notices-irs

Links:
[1] http://www.sdbj.com/news/2010/jul/26/san-diego-businesses-receive-health-care-reform-no/