March 27, 2013

Health Care Reform Update
Small Business Tax Credit for Church Plan Employers

On December 2, 2010, the Internal Revenue Service (IRS) issued Notice 2010-82 announcing that the Small Business Health Care Tax Credit (Tax Credit) included in the Patient Protection and Affordable Care Act (PPACA) is available to churches and other small employers that obtain coverage through self-funded denominational church health plans. Local United Methodist churches and small employers that satisfy the other requirements of the Tax Credit—such as requisite number of employees and average wages, and uniform coverage—can qualify for the Tax Credit if they obtain coverage through the General Board’s HealthFlex health plan or other self-funded annual conference health plans.

Earlier IRS guidance about the Tax Credit suggested that coverage eligible for the Tax Credit must be provided by an insurance company licensed under state law. In contrast, the new guidance makes it clear that self-funded church plan coverage is considered “eligible coverage” for purposes of the Tax Credit. The Tax Credit is designed to encourage small tax-exempt organizations to offer health insurance coverage to their employees for the first time or to maintain coverage they already offer.

In general, the Tax Credit is available to small employers that pay at least half of the premiums for single (self-only) health insurance coverage for their employees (limited to the average premiums for the employer’s market). Small employers can claim the Tax Credit for 2010 through 2013 and for any two years after that. For tax years 2010 to 2013, the maximum credit is 25% of premiums paid by eligible tax-exempt organizations. Beginning in 2014, the maximum tax credit will increase to 35% of premiums paid by eligible tax-exempt organizations—but only for coverage obtained through the health insurance exchanges established under the PPACA.

The Tax Credit is a refundable credit limited to (1) the amount of Medicare tax and federal income tax that a small employer withholds from employees’ pay, coupled with (2) the small employer’s share of the Medicare tax on employees’ pay. The amount of the Tax Credit cannot exceed these amounts. Due to how federal taxes are paid by most clergy, this condition may require the local church and clergy to reconsider how taxes are withheld if claiming the Tax Credit is desired.

Eligible tax-exempt organizations will first use Form 8941 to calculate their refundable credit, and then will claim the credit on Line 44f of Form 990-T. Many churches do not typically file a Form 990-T because that form is primarily filed by organizations liable for the tax on unrelated business income. However, Form 990-T must now be used by any eligible tax-exempt
organization to claim the Tax Credit, regardless of whether the organization is subject to the tax on unrelated business income.

Notice 2010-82 also takes into account when clergy, who are considered self-employed for employment tax (FICA) purposes, are to be counted as employees for purposes of the Tax Credit and how clergy compensation is to be treated for the Tax Credit’s average wage calculations.

Additional Information
More information about the Tax Credit and how health care reform may impact the health plans of The United Methodist Church is available in the Health Care Reform section of the General Board website. Please submit any questions to healthcarereform@gbophb.org. You also can learn more about health care reform in general at www.healthcare.gov.

More information from the government about the Tax Credit can be found here:

- IRS Guidance
- Form 8941; Instructions to Form 8941; Form 990-T; and Notice 2010-82