General Board
Pension and Health Benefits

Caring For Those Who Serve Since 1908

1901 Chestnut Avenue
Glenview, Illinois 60025-1604
1-800-851-2201
www.gbophb.org

April 2, 2013

Small Business Health Care Tax Credit Provisions 2011-2013

The Patient Protection and Affordable Care Act (PPACA) established a Small Business Health Care Tax Credit (Tax Credit) as an incentive for small employers to provide health insurance coverage to their employees. Qualified small employers (those with 25 or fewer "full-time equivalent" employees and average annual wages less than $50,000)—including tax-exempt organizations such as local United Methodist churches—may be eligible for the Tax Credit.

In December 2010, the Internal Revenue Service (IRS) published **guidance** on the Tax Credit that included specific information about the eligibility of small church employers. Local United Methodist churches and church-related employers may qualify for the Tax Credit, whether they obtain coverage through HealthFlex [the self-funded church health plan maintained by the General Board of Pension and Health Benefits (General Board)], their annual conference's self-funded health plan, a stand-alone self-insured church plan, or through a commercial insurance company (directly or through their annual conference's fully-insured group plan). The IRS guidance also addressed how to handle clergy compensation in determining eligibility for and the amount of the Tax Credit available.

The General Board published a series of articles on its website to help annual conferences, local churches and other United Methodist employers understand and benefit from the Tax Credit. Those articles remain applicable in 2013 through 2014 (for Tax Years 2012 and 2013), and include:

- **Small Business Tax Credit and United Methodist Churches summary**;
- **Frequently Asked Questions (part I)**;
- **Frequently Asked Questions (part II)**; and
- **IRS Inquiries Related to Small Business Tax Credit**.

The Tax Credit is available for Tax Year 2012 by filing the tax forms described on page 2 by **May 15, 2013** (for employers on a December 31 fiscal year). The Tax Credit remains available through the 2013 Tax Year. Beginning in 2014, the Tax Credit will increase to up to 35% of premiums paid by eligible tax-exempt organizations—but only for coverage obtained through the health insurance exchanges established under the PPACA. Therefore, beginning in 2014, the Tax Credit will no longer be available to tax-exempt employers in self-insured church plans. Also as of 2014, an eligible employer may only use the Tax Credit for two years thereafter.

The Basics

Small employers with no more than 25 full-time equivalent employees and average employee wages of less than $50,000 are eligible for the Tax Credits if they offer "qualifying health insurance coverage" (e.g., coverage from a licensed insurance company or a self-funded church plan) to their employees under a "qualifying contribution arrangement."

For tax-exempt organizations, the Tax Credit can be up to 25% of premiums paid and will take the form of a refundable credit against the amounts the employer is required to withhold from its employees' wages for federal income taxes and Medicare tax, plus the employer share of Medicare taxes (the Tax Credit is therefore also limited by these amounts).

To be a "qualifying contribution arrangement" the employer must make a contribution on behalf of each employee who is enrolled in health care coverage. This contribution cannot be less than 50% of the premium cost of single (employee-only) coverage under the plan. If an employee is receiving coverage that is more expensive than single coverage (e.g., family coverage), the employer need only pay at least 50% of the premium for single coverage for that employee.

The employer's contribution must also be a ***uniform percentage*** of the premium cost for all covered employees. In order to satisfy this uniformity requirement, the church must pay the *same percentage* of the premium cost for all covered employees (including the clergyperson).

> *2010 Limited Exception:* A special transition rule for the uniform percentage requirement had applied only for 2010, because the PPACA was enacted partway through the 2010 Tax Year. That transition relief is now expired. The *Instructions to Form 8941* for claiming the Tax Credit provide relevant details about what constitutes a qualifying arrangement for the 2011 Tax Year and beyond—not for 2010.

New Forms for 2012

The IRS has released the 2012 version of ***Form 8941*** (and **Instructions**), which is used by eligible small employers to calculate their Tax Credit. Once calculated, the Tax Credit is claimed by tax-exempt small employers as a refundable credit on ***Form 990-T***.

Form 8941 for the 2012 Tax Year has been simplified somewhat, which may make the form more user-friendly for church employers.

Deadline: May 15, 2013

For the 2012 Tax Year, employers need to submit *Form 8941* and *Form 990-T* by **May 15, 2013** (or else file a request for extension by that date for a few extra months' time).

Effect of Sequestration on Tax Credit

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic federal budget cuts took place as of March 1, 2013. These required cuts are referred to as the "sequestration" in the media. These sequestration cuts include a reduction to the refundable portion of the Tax Credit for certain small tax-exempt employers. As a result, the refundable portion of claim by qualifying small church employers may be reduced by 8.7 percent.

More Information

You can read more about the Tax Credit and about health care reform on the General Board's **health care reform page**. Please send your questions to **healthcarereform@gbophb.org**. General information about health care reform is available from the federal government at **www.healthcare.gov**.
