EPISCOPAL CHURCH
MEDICAL TRUST

# 2013 Small Employer Health Care Tax Credit[1]

## Is Your Church or Organization Eligible?

This announcement contains important information about the Small Employer Health Care Tax Credit to help you determine whether your church or organization is eligible for the tax credit for 2013. It will also help you complete the forms necessary to claim your tax credit.

**Contents**



[1] *This information updates the memorandum authored by The Episcopal Church Medical Trust in February 2013 relating to the tax credit for 2012.*

## What is the Small Employer Health Care Tax Credit?

The legislation that we commonly refer to as Healthcare Reform created a refundable tax credit as an incentive for small employers to provide health insurance coverage to their employees. The credit was available for the 2010 tax year and will continue to be available, although beginning in 2014, the credit will be available only to employers that purchase coverage through the health insurance exchanges and only for two (2) consecutive taxable years.

## Who is Eligible to Take Advantage of the Tax Credit for 2013?

In general, to take advantage of the tax credit for 2013, you must:

- employ fewer than 25 full-time equivalent employees (FTE)
- pay average annual wages of less than $50,000 per FTE
- pay premiums or contributions for each employee enrolled in the healthcare plan in an amount equal to a uniform percentage (minimum 50%) of the cost of the coverage

Each of these is discussed more fully below.

## What is a Uniform Percentage?

To qualify for the tax credit, the employer must pay a uniform percentage (not less than 50%) of the premium or contribution for each employee enrolled in health insurance coverage offered by the employer. Although this would appear to be a simple determination, the complexity of the uniform percentage requirement depends on the number of plans, the type of plans and the tiers the employer offers. For a detailed discussion of this requirement and helpful examples, please see the Instructions for IRS Form 8941, located at *www.irs.gov/pub/irs-pdf/i8941.pdf* and IRS Notice 2010-82, pages 10-17, located at *http://www.irs.gov/pub/irs-drop/n-10-82.pdf*.

## What is the Amount of the Tax Credit?

For tax-exempt small employers (such as churches), the 2013 credit is generally up to 25% of premiums or contributions paid, limited to the amount of certain payroll taxes paid and the average premium in the small group market in your state. The full amount of the credit is available only if you had 10 or fewer FTEs with an average wage of $25,000 or less. The credit is phased out as your FTE count and average wage increase. IRS Form 8941 and the instructions below will help you determine the amount of your tax credit.

Note: Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, refund payments issued to certain small tax-exempt employers claiming the refundable portion of the Small Business Health Care Tax Credit under Internal Revenue Code Section 45R, are subject to sequestration. This means that refund payments processed on or after October 1, 2013, and on or before September 30, 2014, to a Section 45R applicant will be reduced by the fiscal year 2014 sequestration rate of 7.2 percent, irrespective of when the original or amended tax return was received by the IRS. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change.

Affected taxpayers will be notified through correspondence that a portion of their requested payment was subject to the sequester reduction and the amount.

## How are Clergy Treated under the Health Care Tax Credit?

Clergy who receive a Form W2 from you are counted in the calculation of FTEs but NOT in the calculation of average wages. As clergy are often the most highly paid employee a church has, not counting those wages may help keep the average wage below the $50,000 threshold.

## Is There a Limit to the Tax Credit?

The amount of the tax credit is limited by the aggregate amount of federal income and Medicare taxes the employer withholds from employee compensation, plus the employer portion of the Medicare tax.

Technically, employers do not withhold Medicare taxes from clergy compensation or contribute Medicare taxes on behalf of their clergy. Therefore, if you did not withhold federal income tax from your clergy compensation in 2013, your potential tax credit will be limited by the amount of federal income tax and Medicare tax you withheld from your lay employees' compensation plus the amount of Medicare taxes you contributed on your lay employees behalf behalf. **This is true even if you reimburse your clergy for any portion of SECA taxes.**

In addition, the tax credit is limited by the average premium for small group markets in your state.

## What Coverage is Eligible for the Credit?

For purposes of this tax credit, health insurance coverage includes the Medical Trust medical and dental plans, long-term care plans, nursing home care plans, home health care plans, community-based care plans, fixed indemnity insurance, Medicare supplemental health coverage and certain other coverages. If you did not provide medical and dental coverage through The Medical Trust, please contact your legal or tax advisors to determine the eligibility of your coverage for the credit.

Please note that coverage does not include AFLAC-like policies that cover only accidents, disability insurance, liability insurance, workers compensation or similar insurance, automobile medical payment insurance, credit-only insurance, coverage for on-site medical clinics or coverage provided by health reimbursement arrangements, flexible spending arrangements or health savings accounts.

## How do you Claim the Tax Credit?

After you have calculated the amount of your **refundable** tax credit, if any, on Form 8941, you can claim the credit by filing an IRS Form 990-T, Exempt Organization Business Income Tax Return. While you may never have filed the form in the past since since it is used primarily to report unrelated business income (UBI), you must file Form 990-T to claim the credit, even if you don't have UBI. The Form 990-T must generally be filed by May 15th for calendar year taxpayers, but you can request an extension of time to file.

### Completing Form 8941

If you believe you are eligible for the tax credit for 2013, follow the instructions below to complete Form 8941.[2]

**Line 1a:** Enter the total number of individuals you employed during the tax year who are considered employees for purposes of this credit. Do not count seasonal workers such as camp staff unless they worked more than 120 days during the tax year. Include regular employees who were employed for only part of the tax year, and employees who were not enrolled in the healthcare benefits you offered.

[2] *Form 8941 can be downloaded from www.irs.gov/pub/irs-pdf/f8941.pdf. The instructions can be downloaded from www.irs.gov/pub/irs-pdf/i8941.pdf.*

**Important Note – Clergy:** Clergy ARE included in this figure if they received a Form W2 from you.

**Important Note – Leased Employees:** A leased employee who is not a common law employee is considered an employee for tax credit purposes if all of the following apply:

1. The leased employee provides services under an agreement between you and the leasing organization.
2. The leased employee has performed services for you substantially full-time for at least 1 year.
3. The leased employee performs services under your primary direction or control.

However, do not use premiums paid by the leasing organization to figure your credit, and do not use the hours, wages or premiums/contributions paid for the initial year of service on which the leased employee status is based.

**Line 1b:** Enter the employer identification number (EIN) used to report employment taxes for the employees you report on line 1a.

**Line 2:** Enter the number of FTEs. To determine total FTEs, calculate the total number of hours the employees in line 1 worked during tax year 2013, **including** clergy hours (if they received a W2 from you), but not seasonal employees' hours (unless they worked more than 120 days during 2013) or hours worked during the first year of employment for leased employees.

**Full-time employee** – Do not enter more than 2,080 hours for each full-time employee. Include hours for which the employee was paid but when no duties were performed due to vacation, sick leave, disability, etc. (Please note: no more than 160 hours are required to be counted for a single continuous period in which no duties are performed.)

**Part-time employee** – Calculate by any reasonable method (actual hours worked, number of days times 8 hours, etc.) the number of hours each part-time employee worked in 2013. You can use different calculation methods as long as your classifications are reasonable and your methodology is consistently applied.

Divide the total number of hours worked by 2,080 and round down to the nearest whole number (but not less than 1). This is your total FTEs for line 2.

**Important note:** If this number is 25 or more, you do not qualify for this tax credit for tax year 2013 and you do not need to complete the form.

**Line 3:** Enter the average annual wages. To determine the average annual wages, calculate the total wages paid to the employees counted for line 1, EXCEPT clergy wages or wages paid to seasonal employees (unless they worked more than 120 days during 2013) and wages paid to leased employees during the first year of employment. Divide that total by the number of total FTEs from line 2, and round down to the nearest multiple of $1,000.

**Important note:** If this number is $50,000 or more, you do not qualify for this tax credit for 2013 and you do not need to complete the form.

**Line 4:** Enter the total amount of premiums (or contributions for self-funded plans) paid for employees enrolled in your eligible healthcare plans as defined above. Do not include amounts contributed to health savings accounts, flexible spending accounts, or health reimbursement arrangements. Do not include any amounts employees contributed toward the premium or contribution.

**Important note:** Premiums paid or contributions made on behalf of clergy (if they received a W2 from you), leased employees (except during their first year of employment) and seasonal workers ARE included in this amount.

**Important note:** If you did not contribute at least 50% of the premium cost or contribution for single coverage uniformly for all employees enrolled in your healthcare plans in 2013, you do not qualify for this tax credit for 2013 and you do not need to complete the form.

**Line 5:** Enter the total amount of premiums or contributions you would have paid if your employees had been enrolled in plans with premiums equal to the average premium for the small group market in the state in which the employee works in 2013.

Calculate that amount as follows:

- Figure the percentage of the premium or contribution you made for each employee: divide your contribution by the total contribution for that employee. For example, if you paid $500 of the $1,000 total monthly contribution for an employee, you paid 50% ($500/$1,000 = 0.5 or 50%).
- Multiply that percentage for each employee by the average health care premium for the small group market in your state for 2013. The current figures are found in the instructions for Form 8941.
- Total the results for each employee calculation and enter it on line 5.

**Line 6:** Enter the smaller of line 4 or line 5.

**Line 7:** Multiply line 6 by 25% (0.25).

**Line 8:** If line 2 is 10 or less, enter the amount from line 7. Otherwise, calculate as follows:

- Subtract 10 from the number in line 2
- Divide the result by 15 and round to at least three decimal places
- Multiply the result by the number in line 7
- Subtract the result from the number in line 7
- Enter this result on line 8

**Line 9:** If line 3 is $25,000 or less, enter the amount from line 8 on line 9. Otherwise, calculate as follows:

- Subtract 25,000 from the number in line 3
- Divide the result by 25,000 and round to at least three decimal places
- Multiply the result by the number in line 7
- Subtract the result from the number in line 8
- Enter this result on line 9

**Line 10:** Enter the amount of any state premium subsidies paid or state tax credits, if any, that are available to you for premiums included on line 4 for tax year 2013. Talk to your tax advisor for details.

**Line 11:** Subtract line 10 from line 4. If less than zero, enter -0-.

**Line 12:** Enter the smaller of line 9 or line 11.

**Line 13:** Enter the number of employees from line 1a for whom you paid premiums or contributions during tax year 2013. If line 12 is zero, skip lines 13 and 14 and go to line 15.

**Line 14:** Enter the number of total FTEs of those for whom you paid contributions during tax year 2013. Calculate this number using the methodology from line 2, using only the hours of employees covered under your healthcare plans for whom you paid premiums or contributions. This number may be less than the number you entered in line 2 because you may not have paid premiums or contributions for every employee.

**Line 15:** This line will apply if you receive a Schedule K-1 from other entities. See your tax advisor for further information.

**Line 16:** Add lines 12 and 15.

**Skip lines 17 and 18.**

**Line 19:** Enter the total amount of certain payroll taxes:

- Federal income taxes withheld from employees' wages in calendar year 2013, including those voluntarily withheld from clergy compensation during 2013
- Medicare taxes withheld from employees' wages in calendar year 2013; **do not include** any portion of Self-Employment Taxes (SECA) reimbursed to clergy
- Your share of Medicare taxes paid for calendar year 2013

**Line 20:** Enter the smaller of line 16 or line 19. Enter this number on Form 990-T, line 44f.

**Completing Form 990-T**[3]

Most of this form is irrelevant if you are filing it for the sole purpose of claiming the tax credit.[4] In order to claim the tax credit, you need only do the following:

- Fill in the heading (the area above Part 1) except items E, H and I.
- Enter zero (-0-) in line 13, column A (Total unrelated trade or business income)
- Enter zero (-0-) in line 34 (Unrelated business taxable income)
- Enter zero (-0-) in line 43 (Total tax)
- Enter the credit from line 20 of Form 8941 on line 44f (Credit for small employer health insurance premiums)
- Complete line 45 (Total payments)
- Complete line 48 (Overpayment), which will be the same as line 45
- Complete line 49 (Credited to 2014 estimated tax or refunded)
- Complete the signature area
- Write **Request for 45R Credit Only** on the top of Form 990-T
- Be sure to attach the completed Form 8941

This form must be filed by the 15th day of the 5th month after the close of the tax year, which for those using a calendar year will be May 15, 2014. You may request an extension of time to file Form 990-T.

[3] *Form 990-T for 2013 can be downloaded from http://www.irs.gov/pub/irs-pdf/f990t.pdf.*

[4] *If you have unrelated business income for 2013, contact your tax advisor before completing Form 990-T.*