

SMALL EMPLOYER HEALTH INSURANCE TAX CREDIT FOR FARMERS AND BUSINESSES

Small employers offering health insurance may be eligible for a tax credit through 2015 if certain criteria are met.

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Since 2010, the small employer health insurance tax credit (Code Section 45R) has been available. For tax years 2010 through 2013, businesses that pay over half the cost of health insurance under a qualifying plan and have 10 or fewer full-time equivalent employees (FTE) who average \$25,000 or less in wages can receive up to 35 percent of their qualified premiums as a general business credit. The credit phases out $6\frac{2}{3}$ percent for each employee over 10 and 4 percent for each \$1,000 of average wages received over \$25,000. It is completely phased out at 25 FTE or \$50,000 on average wages or any combination of reductions that add up to 100 percent reduction. For example, with 19 employees and \$35,000 average wages the reduction is $(19 - 10)$ multiplied by $6\frac{2}{3}$ percent = 60 percent reduction and $[(\$35,000 - \$25,000)/\$1,000]$ multiplied by 4 = 40 percent reduction for a total reduction of 100 percent of the tax credit which leaves zero credit to the employer.

It's important to note that as the definition of farmer varies in the tax code, the meaning of the term "employee" for the Section 45R credit is one who works 2,080 hours (one FTE) while the employee meaning for the shared responsibility requirements after 2013 or the penalty tax calculations for health insurance is an average of 30 hours per week.

FTEs generally do not include owners, family members, dependents, or seasonal workers (less than 120 days). Leased employees do count for calculating FTEs. Average wages are rounded down to the nearest thousand dollars. Health insurance is normally considered an ordinary and necessary expense and is, therefore, deductible. Any credit received will reduce the business expense by the amount of the credit. Only premiums paid for health insurance under a qualifying plan or arrangement for employees may be used in calculating the credit. The credit is also reduced if the employer premiums are more than the average premium for the small group market.

In Michigan (for 2012) that amount was \$5,335 for single coverage and \$12,936 for family coverage. Expect these to be a little higher in 2013.

The maximum credit increases to 50 percent for tax years beginning in 2014 through 2015. Some restrictions change such as the employer must participate and purchase the health insurance coverage through the state insurance exchange instead of working through an insurance agent to get the credit. The credit expires after 2015. After 2013 the \$25,000 average annual wage amount may be adjusted for inflation. See IRS Form 8941, Credit for Small Employer Health Insurance Premiums, and the accompanying instructions for specific information.

