

**CLAREMONT**  
INSURANCE SERVICES



Small Employer Healthcare Tax Credit  
New Opportunities for Insurance Brokers and Agents

Claremont Insurance Services 800-696-4543 [www.claremontcompanies.com](http://www.claremontcompanies.com)

# Small Employer Healthcare Tax Credit

## New Opportunities for Insurance Brokers and Agents

You have a unique opportunity to add value for your small employer prospects and clients by lowering the cost of their health insurance coverage.

The Small Employer Healthcare Tax Credit, part of the Affordable Care Act, allocates funds to encourage small employers to offer (or continue offering) health insurance coverage. With credits of up to 50% of employer-paid premiums, it's a valuable option for qualified employers.

### Benefits for Insurance Brokers/Agents

*New sales opportunities* – Approach prospects with the potential of significant savings. Business owners who don't currently offer coverage will be very motivated to listen to your proposal.

*New markets* – Have you overlooked employers in certain lines of business due to cost? These businesses may qualify for the tax credit and they may become your new clients.

*Strengthen client relationships* – Get ahead of your competition. Be the first to discuss the tax credit with clients.

*Create new sales opportunities* – Tax credit funds can be used to offer richer benefits or ancillary benefits, providing even more value to your clients.

### Target Employer Groups

The [Small Business Majority](#) estimates that 375,000 employers in California qualify for the tax credit. We've analyzed over 200 companies with our easy-to-use tax credit estimator:

- 75% qualified for the tax credit
- Nearly 25% of those that qualified purchased coverage through Covered California for Small Business (CCSB) and received an average credit of \$5,800.
- Over 70% had no prior coverage.
- 20% of those groups that did not qualify for the tax credit chose to purchase coverage anyway.

Who are these employers?

- Some will be existing clients, others will be competitors' clients and some will be employers who don't currently offer coverage. All are prospects for the tax credit.
- "Two-tier" small businesses – those with a higher-paid owner/partner tier and a lower-wage employee tier. Professional practices are a good example: medical, dental, and legal firms.
- Low wage businesses: restaurants, landscaping, auto repair shops, home care, pre-school and non-profits.
- New businesses – running at a low margin with employees working for "sweat equity."

### Next Steps

[Download](#) Claremont's free turnkey tax credit solution. It includes:

- This Tax Credit Quick Reference Guide for brokers/agents.
- Tax Credit and CCSB Quick Reference Guide for business owners - easily customizable with your logo and agency information.
- Tax Credit Estimator Worksheet and sample report (see below).

# Small Employer Healthcare Tax Credit

## Quick Reference Guide for Insurance Brokers and Agents

### The Big Picture

**Purpose**

Increase the number of individuals covered by medical insurance by making it more affordable for small employers, in lower wage businesses, to offer health insurance coverage.

**To Qualify**

An employer qualifies for the credit if it:

- Employs 25 or fewer full-time equivalent employees (FTE's)
- Pays average wages of approximately \$52,000 or less per FTE (in 2016)
- Purchases coverage through Covered California's Small Business marketplace (CCSB)
- Tax-exempt businesses can also qualify

**Full-time Equivalent Employee (FTE)**

The IRS uses FTE to measure the number of full-time employees in a business when not everyone works full-time. For example, one 40-hour per week employee is counted as one FTE. Two 20-hour per week employees are also counted as one FTE.

**The Tax Credit**

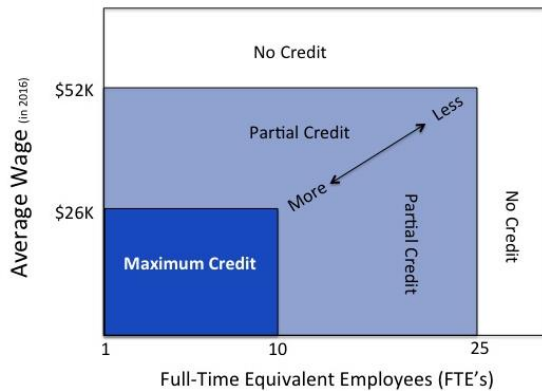
A tax credit is valuable – it is a dollar for dollar reduction in taxes owed by the business/owner. The tax credit is offered on a sliding scale with the maximum earned if a business has 10 or fewer FTE's and pays approximately \$26,000 or less in average wages. The credit phases out once a business has 25 or more FTE's or approximately \$52,000 or more in average wages.

	<u>For Profit</u>	<u>Non-Profit</u>
Maximum credit	50%	35%

The credit is based on the amount the employer contributes towards the employees' premiums for medical coverage. Formula to calculate dollar value:

$$\text{credit\%} \times \text{premium paid} = \text{dollar value of credit}$$

An employer can apply for the credit for a maximum of two consecutive years. To apply, an employer's tax advisor files Form 8941 together with the business return (or personal return if sole prop, partnership or S-corp), deducting the amount of the credit from the taxes owed. Unused credit can be applied toward tax liability in future years.



**Claremont Insurance Services – A Resource for Brokers and Agents**

Contact us to learn more about the tax credit, who's eligible, how to complete our tax credit estimator worksheet, or anything related to CCSB. As an authorized CCSB general agency, we are experts in all of the CCSB products, procedures, and processes.

## The Details

*Covered California for Small Business* – is the marketplace where small employers can purchase coverage that qualifies them for the tax credit (if they meet the other eligibility requirements). When purchasing coverage through CCSB, the employer must cover at least 50% of the cost for employees (not dependents). This is common for all group insurance coverage.

*Eligibility* – Any business (taxable or tax-exempt) that meets the FTE count and average wage requirements is eligible for the tax credit. Since the credit is based on the amount of premium paid to CCSB, business owners can maximize the credit by enrolling in CCSB plans at the beginning of or early in their tax year.

### *Counting Premium, FTE's & Average Wage*

- The time period used is the employer's tax year.
- Premium is the amount paid by the employer for employees' "health insurance coverage" (defined below).
- Business owners and their relatives are excluded from all calculations.
- To count FTE's add up total hours worked by all employees (max 2,080 hours per employee), divide by 2,080 and round down to nearest whole number.
- Seasonal employees are excluded from the FTE and wage counts, however if the employer pays for their coverage, that amount is included in the total premium paid.
- All employees who worked during the tax year are counted (minus the exceptions above) regardless if they are still employed.
- Control group rules apply – if an employer owns multiple businesses, the totals from all businesses are aggregated when calculating premium, FTE's and average wage.

*Health Insurance Coverage* – includes typical small group medical, dental, vision, long-term care, hospital indemnity and Medicare supplemental plans. It excludes: accident-only, HRA's, FSA's, HSA's.

*Owners and relatives* – A person is considered an owner if they are: an owner, a partner, a shareholder of more than 2% of an S corp or an owner of more than 5% of any other type of business. Relatives are: immediate relatives, spouses and in-laws of the owner.

*Seasonal Employee* – A seasonal employee is one that works less than 120 days during the year and whose employment is seasonal, such as a retail clerk who works only during the holiday season.

*Household Employees* – A sole proprietor must include household and other non-business employees when calculating FTE's, average wages and premiums paid.

*Business Deduction & Credit* – The business deduction/expense for providing healthcare is reduced by the amount of the credit. The credit may be carried back one year and forward twenty years. Tax-exempt organizations apply the credit against 941 taxes owed.

*Example* – A for-profit employer pays \$10,000 during the tax year towards medical coverage for employees. The employer qualifies for a 50% tax credit:  $50\% \times \$10,000 = \$5,000$ . When the employer files tax returns at the end of the tax year, \$5,000 can be deducted from the amount of tax owed.

*Resources* – The IRS web site has a great [section](#) dedicated to the tax credit:

<https://www.irs.gov/Affordable-Care-Act/Employers/Small-Business-Health-Care-Tax-Credit-and-the-SHOP-Marketplace>

Ready to start talking to clients and prospects about the tax credit? Contact us with any questions.