



On December 2, 2010, the IRS issued Notice 2010-82. This guidance allows small employers enrolled in denominational health plans, like the Concordia Health Plan (CHP), to be eligible to claim the Small Business Health Care Tax Credit. This credit was made available under the 2010 Patient Protection and Affordable Care Act (health care reform).

An employer may qualify as an eligible small employer if:

- The employer has fewer than 25 full-time equivalent employees (FTEs) for the taxable year. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, employers that use part-time workers may qualify even if they employ more than 25 individuals. (IRS guidance provides instructions on how to calculate the number of FTEs.)
- The employer's average annual wages for the year are less than \$50,000. (The guidance also explains how to calculate the average annual wages.)
- The employer maintains a qualifying arrangement. In general, if an employer pays at least 50% of the premiums (such as contributions for the CHP) of single (self-only) health coverage for their employees (limited to the average premiums for the employer's market), it is a qualifying arrangement. (An employer's contributions to Health Reimbursement Arrangements, health Flexible Spending Accounts, or Health Savings Accounts are not counted as eligible premiums for purposes of this credit.)

For purposes of determining eligibility for the credit, ordained and commissioned ministers on the official roster of The Lutheran Church—Missouri Synod ("rostered workers") are counted as employees for the FTE calculation, but their wages are excluded for the average wage calculation.

The maximum credit is 25% of premiums (i.e., CHP contributions) paid by eligible tax-exempt organizations. The tax credit is a refundable credit limited to the amount of Medicare tax and federal income tax that an employer withholds from employees' pay, plus the employer share of Medicare tax. The eligible taxes for the refund calculation also include any voluntary federal income tax withholding requested by a worker.

The maximum credit goes to smaller employers—those with 10 or fewer FTEs paying average annual wages of \$25,000 or less. The credit is completely phased out for employers that have 25 or more FTEs or that pay average wages of \$50,000 or more per year.

The tax credit is available for tax years 2010-2013.

Detailed instructions for determining if a credit is available are provided in IRS Form 8941. IRS Notice 2010-82 also provides information about the credit. Both of these items are available on the IRS website, www.irs.gov.

Concordia Plan Services does not provide financial or tax advice. Information and sample credit calculation are provided to help increase awareness regarding this tax credit. Employers are encouraged to seek assistance from a tax advisor or attorney.

Qualifying employers can claim a refundable credit by:

- Calculating their credit on Form 8941.
- Filing Form 990-T with the amount of the credit listed on Line 44f of that form. Form 8941 is filed as an attachment to Form 990-T. Most churches do not typically file a Form 990-T since it is used primarily for organizations liable for taxes on unrelated business income. However, the IRS has modified Form 990-T to include the claim for the Small Business Health Care Tax Credit.
- Filing Form 990-T (and obtaining the credit) by the May 15 due date for employers with fiscal years ending December 31; November 15 due date for employers with fiscal years ending June 30 (e.g., May or November 15, 2011, for the 2010 credit). An automatic 3 month extension is available by filing Form 8868.

We are thankful for the efforts of the Church Alliance on the credit. The Church Alliance is an organization made up of church benefit plans (approximately 50 denominational plans) that focuses on legislation and regulations that have an impact on church benefit plans. The Church Alliance maintained frequent contact with the IRS as details of the new credit were being defined.

Contact Information

Phone: 888-927-7526

E-mail: info@ConcordiaPlans.org

Web: www.ConcordiaPlans.org

(Sample calculation available on reverse side)

Example Illustrating Calculation of 2010 Tax Credit

Employer Information			
Main Street Lutheran Church, located in Illinois, has four employees. All of the employees are enrolled in the Concordia Health Plan (CHP). The full cost of single (employee-only) CHP coverage in the area for the four employees is \$22,000.			
<ul style="list-style-type: none"> ■ The church's policy is to pay 75% of the single (employee-only) contribution rate (premium) for its employees. ■ The cost of coverage actually paid by the church for the year is \$16,500 ($\\$22,000 \times .75$). 			
Employees*	Annual Hours Worked**	Wages Per Year	LCMS Roster Status
Pastor	2,080 (52 weeks x 40 hours per week)	\$65,000	Rostered Worker
DCE	2,080 (52 weeks x 40 hours per week)	\$40,000	Rostered Worker
Secretary	1,820 (52 weeks x 35 hours per week)	\$30,500	Lay Worker
Custodian	1,560 (52 weeks x 30 hours per week)	\$20,000	Lay Worker
* "Seasonal" employees who work for you 120 or fewer days during the tax year are not considered employees in determining FTEs and average annual wages. Please refer to the instructions for Form 8941 for additional details.			
** 2,080 hours is the number of hours indicative of one full-time employee for purposes of the calculation. Do not include more than 2,080 hours of service for any employee.			

Full time employee equivalent (FTEE) calculation:

- $7,540$ total annual hours / $2,080$ hours per FTE = 3.63 FTEEs
- The FTEE is rounded down to the nearest whole number or 3^{\dagger}

Average wages calculation:

Wages are excluded for certain types of employees like LCMS Rostered Workers—refer to Form 8941 for details.

- Secretary \$30,500
- Custodian 20,000
- Total aggregate wages \$50,500
- $\$50,500$ total aggregate wages / 3 FTEEs = $\$16,833.33$.
- The average wage is rounded down to the nearest thousand or $\$16,000^{\dagger}$

Health care costs paid by employer compared with average premium limitations set for your state:

The average premium limitation is used to determine the amount of total premiums paid that can be counted toward the tax credit. The state premium limitation varies by state for single and family coverage. *The information for each state is located on page 4 of the instructions for Form 8941.*

- Actual CHP cost paid by the employer for the year: $\$16,500$ ($\$4,125 \times 4$ employees)
- Average Illinois premium limitation: $\$5,198$ is the limit in Illinois for single (employee-only) coverage per employee.
 $\$5,198 \times 4$ employees = $\$20,792$
- If the employer pays less than 100% of the cost of coverage, the total must be multiplied by the percent paid by the employer to determine the limitation. In our example, the employer pays 75% of the cost of single (employee-only) coverage: $\$20,792 \times .75 = \$15,594$

2010 tax credit:

The employer first calculates the lesser of 25% of average state premium or 25% of actual cost of premiums paid. The credit cannot exceed the average state premium calculation amount.

- Average state premium calculation: $\$15,594 \times .25 = \$3,898.50$
- Actual paid CHP cost calculation: $\$16,500 \times .25 = \$4,125.00$

The refundable credit would be $\$3,898.50$ **if** the church has withheld at least $\$3,898.50$ from wages for federal income tax (including any voluntary withholding) and Medicare tax plus the employer's share of Medicare tax. If the total amount withheld plus the employer's share of Medicare tax is less than $\$3,898.50$, the credit is limited to the actual amount of these payroll obligations.

[†] *The tax credit is prorated based on the number of employees and the average wages. The full credit is only available to an employer with 10 or fewer FTEEs and whose employees have average wages of \$25,000 or less. The tax credit is phased out as the FTEE count and average wages increase. No tax credit is available for employers with 25 or more FTEEs or whose average annual wage is \$50,000 or more.*

Concordia Plan Services does not provide financial or tax advice. Information and sample credit calculation are provided to help increase awareness regarding this tax credit. Employers are encouraged to seek assistance from a tax advisor or attorney.