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Expansion of Health Insurance Premium Tax Credit

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Among the extensive health care reform measures which took effect in 2014 was the expansion of the health related tax benefit targeting small tax-exempt (501(c) charitable, educational, health care, trade association, social welfare, advocacy, etc.) organizations which provide health insurance coverage to their employees.

Although tax-exempt employers have historically had little reason to concern themselves with tax reduction benefits, this measure provides a unique “refundable” tax credit – i.e., providing a cash refund to tax-exempt employers with no taxable income (or, alternatively, offsetting any unrelated business taxable income) -- to encourage such small employers to maintain their existing health insurance coverage or offer health insurance coverage for the first time.

In 2014, the maximum tax credit or refund is equal to 35% of health insurance premiums paid by a small tax-exempt employer for the year (excluding any portion of the premium paid by the employee directly or indirectly through salary reduction, cafeteria plans, etc.) -- but not to exceed the aggregate amount of certain payroll taxes paid or withheld (including income tax and Medicare tax withheld from the employees’ wages, plus the employer’s portion of Medicare taxes paid). The employer-paid portion of premiums must be at least half of the total premium cost of the health insurance coverage to qualify.

To qualify as a small tax-exempt employer eligible for the tax credit or refund, the employer must have fewer than 25 full-time equivalent (FTE) employees, and with a payroll paying wages averaging less than \$50,000 per FTE annually. Because this qualification requirement is based on the number of FTEs, many tax-exempt employers with even more than 25 workers may still qualify for the tax credit if they have employees working part-time.

The available tax credit begins to phase out for certain employers with more than 10 FTEs and/or a payroll paying average annual wages exceeding \$25,000 per FTE.