

Medical Premium Refund for Small Organizations

If your organization purchases health insurance for employees, you may be eligible for a significant tax benefit.

As of 2010, the new health reform legislation includes a tax benefit for eligible small employers who buy medical insurance for their employees. Businesses can take a credit of up to 35% against the taxes they pay, while the federal government may pay exempt organizations up to 25% of their medical insurance premiums. And the special handling of ministers makes this even more beneficial for some organizations.

Several of our clients — one of which is a church — have recently qualified for refunds ranging from \$15,000 to \$20,000. As they say in weight-loss commercials, your results may vary. But the potential of a refund makes this worth looking into.

In this article we discuss who qualifies for the credit or refund, how it's calculated, and how to file for it. Please note that while this article focuses on exempt organizations and churches, the general principles covered here apply to businesses as well.

Let's start with a look at who qualifies for the refund.

Eligible Small Employers (ESEs)

According to the IRS, an employer is eligible for the refund or credit if it meets all three of these requirements:

1. It has fewer than 25 full-time equivalent (FTE) employees for the tax year in which the credit is taken. (See the definition of FTE employees below.)
2. The average annual wages (defined below) are less than \$50,000 for tax years beginning in 2010, 2011, 2012, and 2013. (This is indexed for inflation in later tax years.)
3. The employer contributes at least 50% of the premiums.

Businesses should note that certain employees and owners are not considered employees for this credit. You should discuss this with your accountant.

Calculating Full-Time Equivalent Employees

To determine the number of FTE employees, divide the total number of hours for which you paid employee wages during the tax year by 2,080.

Seasonal workers, generally defined as those who work less than 120 days a year, are not included in this calculation. If an employee works more than 2,080 hours a year, the hours in excess of 2,080 are not counted.

Calculating Average Annual Wages

To determine the average annual wages for any tax year, divide the total wages paid by the number of FTE employees and round that number down to the nearest \$1,000.

“Wages” refers to FICA wages, which are determined without a dollar limitation. This would include elective deferrals to retirement plans, for instance.

Special Considerations for Ministers

While the statute did not address the special tax issues associated with ministers, the IRS later clarified this in Notice 2010-82. This clarification is beneficial for many organizations, particularly churches.

According to the IRS:

- Ministers who are treated as an employee (meaning that they receive a Form W-2 to report their compensation) are considered FTE employees, and their hours are included in the calculation above.
- Compensation paid to ministers is not counted when determining annual average wages, however, because a minister's compensation is not subject to FICA. It is subject to SECA (unless they exempted out), but that is a different code section.
- Medical premiums paid for a minister are included in the total premium paid by the employer when calculating the refund.

Since ministers are often the highest-paid individuals in an organization, this should help smaller organizations and churches qualify for and increase the amount of the refund.

Employer Contributions for Health Benefits

For tax years beginning in 2010, 2011, 2012, or 2013, any payment an employer makes to purchase health insurance qualifies toward the refund. Beginning in 2014, payments must be made through an insurance exchange. Contributions made to a self-insured program or health savings account (HSA) do not qualify for the credit.

An employer's contributions must bear a uniform percentage of the premium cost of the qualified health plan, and this percentage must be at least 50%. For 2010 only, the IRS did not require a uniform percentage, as long as all percentages are at least 50% of the cost. In addition, for 2010 it was sufficient if the employer paid at least 50% of single-only coverage, even if the employee has family or dependent coverage.

Contributions that employees make through a cafeteria plan do not qualify as employer contributions toward the premium paid, or toward meeting the 50% threshold requirement. For more information about the premium uniformity requirement, please see our "Premium Uniformity Requirement for the Small Employer Health Insurance Tax Credit/Refund" article.

Additional Considerations

There are a few other issues to note.

Only premiums paid by the employer are counted when calculating the credit. Any amount paid by the employee is not counted.

In addition, the employer's premium payment is limited by the average premium for the small group market in that state, or an area within the state. These limits are published in IRS Revenue Ruling 2010-13 and included in the instructions to Form 8941.

For tax-exempt organizations, the amount of the credit cannot exceed the total of:

- Required income tax withholding,
- Medicare withholding, and
- The employer's share of Medicare tax.

Further, 25% is the maximum refund available. This is reduced if the employer has more than 10 FTE employees, or if average wages exceed \$25,000. A formula is used to calculate the reduction. This is explained in the instructions to Form 8941.

Sample Calculation

Here is an example of how the refund works: A medium-sized church that has 20 FTE employees (including ministers and their hours), pays an average compensation of \$30,000 (excluding minister's pay), and pays \$150,000 annually in insurance premiums (including premiums paid for ministers) could receive a premium refund of \$5,000.

If the same church had only 15 FTE employees, including ministers, the premium refund could be \$17,500. And if the average annual wage was \$25,000, excluding minister's pay, the premium refund could be \$12,500.

Filing for a Refund

As we discussed at the beginning of this article, businesses can receive a credit for their medical premiums, while tax-exempt organizations can receive a refund. Both businesses and exempt organizations need to file Form 8941 to demonstrate their eligibility and the amount due.

Businesses file the form with their business tax return. Exempt organizations file it with Form 990T, even if they do not have unrelated business income.

You can find these and all other IRS forms at <http://apps.irs.gov/app/picklist/list/formsPublications.html>

IRS guidance on the small employer credit/refund is available at <http://www.irs.gov/Affordable-Care-Act/Employers/Small-Business-Health-Care-Tax-Credit-and-the-SHOP-Marketplace>

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving not-for-profit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served mission-focused not-for-profit organizations, churches, and higher education institutions by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

© Copyright 2015 CapinCrouse LLP