THE EPISCOPAL CHURCH MEDICAL TRUST

To: Administrators

From: The Episcopal Church Medical Trust

Date: 1/31/2011

Re: Small Employer Health Care Tax Credit for 2010

This memorandum contains important information about the Small Employer Health Care Tax Credit to help you determine whether your church or organization is eligible for the tax credit **for 2010**. It will also help you complete the forms necessary to claim your tax credit.[1]

Please note that this memorandum is intended to be educational and informational and should not be considered legal or tax advice. Please contact your diocesan chancellor or other legal and/or tax advisors if you have questions or need additional information. This information is current as of January 2011 and does not reflect any guidance issued on or after such date.

What is the Small Employer Health Care Tax Credit?

The legislation that we commonly refer to as Healthcare Reform[2] created a refundable tax credit of up to 25% of health premiums as an incentive for small employers to provide health insurance coverage to their employees. This tax credit is available through 2016, but beginning in 2014, the tax credit will only be available to employers that purchase their coverage through the health insurance exchanges. You may have received a postcard last summer that gave you some information about this tax credit. The IRS has finally provided guidance to clarify that small employers that provide healthcare benefits through a self-funded church plan – such as The Episcopal Church Medical Trust (the "Medical Trust") – may qualify for this tax credit.

Who is Eligible to Take Advantage of the Tax Credit?

In general, you must have no more than **25 full-time equivalent employees** (FTEEs), **average employee wages of less than $50,000**, and **pay at least 50% of the premium** for single healthcare coverage for each employee enrolled in coverage.

Important note: To be eligible for the tax credit for 2011 – 2013, you must **also** contribute a **uniform percentage** of not less than 50% of the premium for each covered employee. *This is an incentive to become compliant with the parity requirements of the Denominational Health Plan as soon as possible.*

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[1] We are grateful for the work done by the Church Benefits Association and its Core Lawyer Working Group who provided the information in this memorandum.

[2] The Patient Protection and Affordable Care Act.

What is the Amount of the Tax Credit?

The credit is a percentage of the amount you pay for healthcare benefits (up to 25% for 2010), and is applied as a refundable credit, which is limited by certain payroll taxes as discussed below. The full amount of the tax credit is available only if you have **10 or fewer FTEEs** with average wages of **less than $25,000**. The credit is phased out as your FTEE count and average wages increase, and is also limited by the average premium for small group markets in your state. IRS **Form 8941** and the instructions below will help you determine the amount of your tax credit.

What if you have an Affiliated Entity (e.g., day care or school)?

All employers who are part of the same controlled group are considered one employer for purposes of this tax credit. "Controlled group" is a technical term used by the IRS, and it is not clear how that term applies to church-related entities. Generally, if your organization shares day-to-day operational and financial control with another entity, the two organizations may be treated as one employer for purposes of the tax credit. If you have an affiliated day care facility, school, or other Episcopal institution, you should discuss with your legal and/or tax advisor how to calculate the number of employees for purposes of the tax credit.

Why Are Clergy Special?

Clergy who receive a Form W-2 from you are counted in the calculation of FTEEs but not in the calculation of average wages. As clergy are often the most highly paid employee a church has, not counting the wages a cleric receives may help keep the average wage below the threshold.

In addition, the amount of the Small Employer Health Care Tax Credit is limited by the aggregate amount of federal income and Medicare taxes the employer withholds from employee compensation, plus the employer portion of the Medicare tax.

Technically, employers do not withhold Medicare taxes from clergy compensation or contribute Medicare taxes on their clergy's behalf. Therefore, if you did not withhold federal income tax from your clergy compensation in **2010**, your potential tax credit will be limited by the amount of federal income tax and Medicare tax you withheld from your lay employees' compensation plus the amount of Medicare taxes you contributed on your lay employees' behalf. **This is true even if you reimburse your clergy for any portion of SECA taxes.**

To maximize the potential Small Employer Health Care Tax Credit for **2011**, clergy may wish to have federal income taxes voluntarily withheld from their compensation.

How Do You Claim the Tax Credit?

After you have calculated the amount of your tax credit, if any, on **Form 8941**, you can claim the tax credit by filing an IRS **Form 990-T**. You may never have filed this form as it is usually used only when church entities have unrelated business income (UBIT). You must file Form 990-T to claim the credit, even if you don't have UBIT. Generally, Form 990-T must be filed by **May 15, 2011**.

Do You Qualify for the Tax Credit?

Use the following steps to determine your eligibility for the credit:

1. Did you pay at least 50% of the contribution[3] for **single coverage** for **each** of your employees enrolled in the plan(s) offered by your church or organization during tax year 2010? Yes ___ No ___
   If no, you do not qualify for this tax credit for tax year 2010.

   Important note: *For 2010 only, you do not have to contribute a uniform percentage for each of your covered employees, but you do have to contribute at least 50% of the cost of single coverage for each employee enrolled in the health benefit plan(s).*

   For example, if you made 50% of the contribution for single coverage for your lay employees and made 75% for clergy, you will be eligible for the 2010 tax credit if you meet the other eligibility criteria. You would not, however, be eligible under this arrangement in 2011.

2. Count the total number of employees who will receive a Form W-2 from you for tax year 2010. Do not count seasonal workers such as camp staff unless they worked more than 120 days during the tax year. Include employees who were employed for only part of the tax year, and employees who do not enroll in the healthcare benefits that you offer. Total ______

   Important note: *Clergy ARE included in this figure if they receive a Form W-2.*

3. Calculate the total number of hours the employees counted in Step 2 worked during tax year 2010. **Total number of hours worked** ______

   Full-time employee – No more than 2,080 hours can be used; include hours for which the employee was paid for vacation, sick leave, etc.

   Part-time employee – Calculate by any reasonable method – actual hours worked, days worked equivalency method (i.e., number of days times 8 hours), etc. You can use different methods of calculating, as long as your classifications are reasonable and your methodology is consistently applied.

4. Calculate your total full-time employee equivalent number. Divide the number from Step 3 by 2,080; round down to the nearest whole number – not less than 1. Total FTEE _____

   If 25 or more, you do not qualify for this tax credit for tax year 2010.

5. Calculate the total amount of wages you paid during tax year 2010 for the employees counted in Step 2. Wages are those subject to FICA tax. Total $__________

[3] The Medical Trust does not charge premiums. What are normally referred to as premiums for healthcare insurance, are called contributions to the Trust.

Important note: *Do NOT include clergy in this amount as clergy wages are not subject to FICA tax.*

6. Calculate the average annual wages you paid for 2010: divide the amount from Step 5 by the total FTEE from Step 4, and round down to the nearest $1,000.
Total $_________

If $50,000 or more, you do not qualify for this tax credit for tax year 2010.

Completing Form 8941

If you believe you are eligible for the tax credit for **2010** after reviewing Steps 1 - 6 above, follow the instructions below to complete Form 8941.[4]

Line 1: Enter the number from Step 2 above.

Line 2: Enter the number from Step 4 above. *Note: if 25 or more, you do not qualify for the tax credit for tax year 2010 and you do not need to complete Form 8941.*

Line 3: Enter the number from Step 6 above. *Note: if $50,000 or more, you do not qualify for the tax credit for tax year 2010 and you do not need to complete Form 8941.*

Line 4: Calculate the total amount you contributed (not counting employee contributions) for health insurance coverage during tax year 2010, and enter it in Line 4.

Important note: *Contribution made on behalf of clergy and seasonal workers ARE included in this amount.*

Important note: *You MAY include contributions made for long-term care, dental, and vision plans if you paid at least 50% of the cost for all employees enrolled in the plan. Do NOT include contributions for AFLAC-type plans, liability insurance, workers compensation insurance, health reimbursement arrangements, flexible spending arrangements, or health savings accounts.*

Line 5: Calculate what you would have paid for healthcare insurance using the Average Premium in the Small Group Market for your state in 2010:

- Figure the percentage of the contribution you made for **each employee:** divide your contribution by the total contribution for each employee. *For example, if you paid $500 of the $1,000 total monthly contribution for an employee, you paid 50% ($500/$1,000=0.5 or 50%).*

- Multiply that percentage for **each employee** by the average healthcare premium for the small group market in your state for 2010. A current copy of the chart published by the IRS is attached.[5]

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[4] The instructions for Form 8941 may also be helpful. See http://www.irs.gov/pub/irs-pdf/i8941.pdf.
[5] See also http://www.irs.gov/pub/irs-drop/rr-10-13.pdf.

- Total the results and enter in Line 5.

  Important Note: *Calculate the percentage for each employee enrolled in your plans, and multiply that percentage by the appropriate number in the attached chart for each employee. The total of these amounts is what you would have paid if the cost of your plans equaled the Average Premium in your state.*

Line 6: Enter the smaller of Line 4 or Line 5.

Line 7: Multiply Line 6 by 0.25.

Line 8: If Line 2 is 10 or less, enter the amount from Line 7. Otherwise do the following:

- Subtract 10 from the number in Line 2 = __________
- Divide the result by 15 (round to at least 3 decimal places)= __________
- Multiply the result by the number in Line 7 = __________
- Subtract the result from the number in Line 7 = __________
- Enter the result in Line 8.

Line 9: If the amount from Line 3 is $25,000 or less, enter the amount from Line 8. Otherwise, do the following:

- Subtract 25,000 from the number in Line 3 = __________
- Divide the result by 25,000 (round to at least 3 decimal places) = __________
- Multiply the result by the number in Line 7 = __________
- Subtract the result from the amount in Line 8 = __________
- Enter the result in Line 9.

Line 10: Enter the amount of state premium subsidies or state tax credits, if any, that are available to you for tax year 2010.

Line 11: Subtract the amount in Line 10 from the amount in Line 4, and enter. If 0 or less, enter 0.

Line 12: Enter the smaller of Line 9 or Line 11. If Line 12 is 0, skip to Line 15.

Line 13 Count the total number of employees from Line 1 for whom you made contributions during tax year 2010 and enter it in Line 13.

Line 14: Calculate the total FTEE of those for whom you made contributions during tax year 2010:

- Total the hours worked for each employee for whom you made contributions = __________
- Divide the result by 2,080 = __________
- Round down to the next whole number – not less than 1 = __________
- Enter the result in Line 14.

Important Note: *This number may be less than the number in Line 4 because you may not have made contributions for every employee.*

Line 15: This Line would apply if you receive a Schedule K-1 from partnerships, S corporations, cooperatives, estates, and trusts. Report the amount from Schedule K-1 on Line 15.

Line 16: Add Lines 12 and 15.

Line 17: This Line would apply if the church or organization is involved in a passive activity. If you have any questions, please stop and contact your legal and/or tax advisors to complete this form.

Line 18: Subtract Line 17 from Line 16.

Line 19: This only applies if Line 17 applies to the church or organization.

Line 20: Applies only if you are amending your tax year 2010 tax return to carry back an unused credit for 2011. *If so, please stop and contact your legal and/or tax advisors to complete this form.*

Line 21: Add Lines 18 through 20, and skip to Line 24.

Line 24: Total the amount you paid in tax year 2010 for applicable payroll taxes:

- The employer share of Medicare tax for tax year 2010 = ________
- The total amount of Medicare tax the employer withheld from the employees' pay for tax year 2010 = ________

Important note: The first two bullets will only apply if you have lay employees. *Do NOT include any portion of Self Employment Taxes (SECA) reimbursed to clergy.*

- The total amount of federal income tax that you withheld from your employees' pay for tax year 2010 = ________

Important note: *To maximize this tax credit for 2011, clergy may volunteer to have federal income taxes withheld from their compensation.*

- Total these amounts and enter in Line 24.

Line 25. Enter the smaller of Line 21 and Line 24. This is the amount of your tax credit, which should be entered on Line 44f of Form 990-T. The 2010 Form 990-T should be filed no later than May 15, 2011 for calendar year taxpayers.

Average Premium in the Small Group Market in 2010

http://www.irs.gov/pub/irs-drop/rr-10-13.pdf

State	Employee-only Coverage ($$)	Family Coverage ($$)
Alaska	6,204	13,723
Alabama	4,441	11,275
Arkansas	4,329	9,677
Arizona	4,495	10,239
California	4,628	10,957
Colorado	4,972	11,437
Connecticut	5,419	13,484
District of Columbia	5,355	12,823
Delaware	5,602	12,513
Florida	5,161	12,453
Georgia	4,612	10,598
Hawaii	4,228	10,508
Iowa	4,652	10,503
Idaho	4,215	9,365
Illinois	5,198	12,309
Indiana	4,775	11,222
Kansas	4,603	11,462
Kentucky	4,287	10,434
Louisiana	4,829	11,074
Massachusetts	5,700	14,138
Maryland	4,837	11,939
Maine	5,215	11,887
Michigan	5,098	12,364
Minnesota	4,704	11,938
Missouri	4,663	10,681
Mississippi	4,533	10,501
Montana	4,772	10,212
North Carolina	4,920	11,583
North Dakota	4,469	10,506
Nebraska	4,715	11,169
New Hampshire	5,519	13,624
New Jersey	5,607	13,521
New Mexico	4,754	11,404
Nevada	4,553	10,297
New York	5,442	12,867
Ohio	4,667	11,293
Oklahoma	4,838	11,002
Oregon	4,681	10,890
Pennsylvania	5,039	12,471
Rhode Island	5,887	13,786
South Carolina	4,899	11,780
South Dakota	4,497	11,483
Tennessee	4,611	10,369
Texas	5,140	11,972
Utah	4,238	10,935
Virginia	4,890	11,338
Vermont	5,244	11,748
Washington	4,543	10,725
Wisconsin	5,222	12,819
West Virginia	4,986	11,611
Wyoming	5,266	12,163

Additional IRS Resources

Small Employer Health Care Tax Credit News	http://www.irs.gov/newsroom/article/0,,id=220809,00.html?portlet=6
Notice 2010-82	http://www.irs.gov/pub/irs-drop/n-10-82.pdf
FAQs	http://www.irs.gov/newsroom/article/0,,id=220839,00.html
Form 8941(2010 final version)	http://www.irs.gov/pub/irs-pdf/f8941.pdf
Instructions to *Form 8941*	http://www.irs.gov/pub/irs-pdf/i8941.pdf
Form 990-T (2010 draft version)	http://www.irs.gov/pub/irs-dft/f990t--dft.pdf
News Release	http://www.irs.gov/newsroom/article/0,,id=231928,00.html
Notice 2010-44	http://www.irs.gov/pub/irs-drop/n-10-44.pdf
Revenue Ruling 2010-13 (Small Market Average Premiums)	http://www.irs.gov/pub/irs-drop/rr-10-13.pdf

2010 Instructions for Form 8941

Department of the Treasury
Internal Revenue Service

Credit for Small Employer Health Insurance Premiums

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Eligible small employers (defined below) use Form 8941 to figure the credit for small employer health insurance premiums for tax years beginning after 2009. The maximum credit is a percentage of premiums the employer paid during the tax year for certain health insurance coverage the employer provided to certain employees. But the credit may be reduced by limitations based on the employer's full-time equivalent employees, average annual wages, state average premiums, and state premium subsidies and tax credits.

For **tax-exempt small employers**, the credit is generally 25% of premiums paid, is also limited to the amount of certain payroll taxes paid, and is claimed as a refundable credit on Form 990-T, Exempt Organization Business Income Tax Return. A tax-exempt small employer is an eligible small employer described in section 501(c) that is exempt from taxation under section 501(a). A tax-exempt employer not described in section 501(c) is generally not eligible to claim this credit. However, a tax-exempt farmers' cooperative subject to tax under section 1381 may be able to claim the credit as a general business credit as discussed next.

For **all other small employers**, the credit is generally 35% of premiums paid, can be taken against both regular and alternative minimum tax, and is claimed as part of the general business credit on Form 3800, General Business Credit.

TIP *If your only source for this credit is a partnership, S corporation, cooperative, estate, or trust, see the Tip under Specific Instructions on page 5.*

Eligible Small Employers

You are an eligible small employer for the tax year if you meet the following three requirements.

1. You paid premiums for employee health insurance coverage under a qualifying arrangement. A qualifying arrangement is generally an arrangement that requires you to pay a uniform percentage (not less than 50%) of the premium cost for each enrolled employee's health insurance coverage (defined on page 3). However, for a tax year beginning in 2010 only, a qualifying arrangement includes any arrangement that requires you to pay at least 50% of the premium cost for single (employee-only) coverage for each employee enrolled in any health insurance coverage you provide to employees, whether or not you pay a uniform percentage of the health care premium cost for each enrolled employee.

In addition, certain employers who do not satisfy the 2010 transition rule discussed above (because they contribute less than 50% of the employee-only premium for some enrolled employees) may still qualify for the credit under other rules for qualifying arrangements. This may include, for example, employers who offer more than one type of health insurance coverage or whose insurance provider does not charge the same premium for all employees enrolled in single (employee-only) coverage. For details, see Notice 2010-82 as discussed under *More Information* on page 5.

For more details, see *Employer Premiums Paid, Health Insurance Coverage,* and *Qualifying Arrangement,* later.

2. You had fewer than 25 full-time equivalent employees (FTEs) for the tax year. You may be able to meet this requirement even if you had 25 or more employees. For details, see *Individuals Considered Employees* and *FTE Limitation,* later.

3. You paid average annual wages for the tax year of less than $50,000 per FTE. For details, see *Individuals Considered Employees* and *Average Annual Wage Limitation,* later.

CAUTION *If you had more than 10 FTEs **and** average annual wages of more than $25,000, the FTE and average annual wage limitations (discussed later) will separately reduce your credit. This may reduce your credit to zero even if you had fewer than 25 FTEs and average annual wages of less than $50,000.*

Employers treated as a single employer. Treat the following employers as a single employer to figure the credit.

- Employers who are corporations in a controlled group of corporations.
- Employers who are members of an affiliated service group.
- Employers who are partnerships, proprietorships, etc., under common control. See Regulations sections 1.414(c)-2, 1.414(c)-3, and 1.414(c)-4 for details.
- Tax-exempt employers under common control. See Regulations section 1.414(c)-5.

For details, see section 45R(e)(5)(A).

TIP *No more than one Form 8941 can be filed with a tax return, unless the exception described in* Example 2 *below applies.*

Example 1. You are a sole proprietor with two separate businesses and you file a separate Schedule C (Form 1040) for each business. You must treat both businesses as a single employer to figure the credit. You will file one Form 8941 for both businesses.

Example 2. You and your spouse are both sole proprietors and file a separate Schedule C (Form 1040) for each of your separate businesses. Neither spouse was an employee of the other spouse or participated in the management of the other spouse's business at any time during the tax year. No more than 50% of the gross income of either business was derived from royalties, rents, dividends, interest, and annuities and you otherwise meet the requirements listed in Regulations section 1.414(c)-4(b)(5)(ii). Do not treat both businesses as a single employer to figure the credit. If you and your spouse are both eligible small employers, you can file two Forms 8941 with a jointly filed Form 1040.

Individuals Considered Employees

In general, all employees who perform services for you during the tax year are taken into account in determining your FTEs, average annual wages, and premiums paid. Rules that apply to certain types of employees are discussed below.

Excluded employees. The following individuals are not considered employees when you figure this credit. Hours and wages of these employees and premiums paid for them are not counted when you figure your credit.

- The owner of a sole proprietorship.
- A partner in a partnership.
- A shareholder who owns (after applying the section 318 constructive ownership rules) more than 2% of an S corporation.
- A shareholder who owns (after applying the section 318 constructive ownership rules) more than 5% of the outstanding stock or stock possessing more than 5% of the total combined voting power of all stock of a corporation that is not an S corporation.
- A person who owns more than 5% of the capital or profits interest in any other business that is not a corporation.
- Family members or a member of the household who is not a family member but qualifies as a dependent on the individual income tax return of a person listed above. Family members include a child (or descendant of a child), a sibling or step sibling, a parent (or ancestor of a parent), a step-parent, a niece or nephew, an aunt or uncle, or a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. A spouse is also considered a family member for this purpose.

Leased employees. Do not use premiums paid by the leasing organization to figure your credit. Also, a leased employee who is not a common law employee is considered an employee for credit purposes if he or she does all the following.

- Provides services to you under an agreement between you and a leasing organization.
- Has performed services for you (or for you and a related person) substantially full time for at least 1 year.
- Performs services under your primary direction or control.

But do not use hours, wages, or premiums paid with respect to the initial year of service on which leased employee status is based.

Seasonal employees. 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. But premiums paid on their behalf are counted in determining the amount of the credit. Seasonal workers include retail workers employed exclusively during holiday seasons.

Household and other nonbusiness employees. Household employees and other employees who are not performing services in your trade or business are considered employees if they otherwise qualify as discussed above. A sole proprietor must include both business and nonbusiness employees to determine FTEs, average annual wages, and premiums paid.

Ministers. A minister performing services in the exercise of his or her ministry is treated as self-employed for social security and Medicare purposes. However, for credit purposes, whether a minister is an employee or self-employed is determined under the common law test for determining worker status. Self-employed ministers are not considered employees.

FTE Limitation

Your credit is reduced if you had more than 10 FTEs for the tax year. If you had 25 or more FTEs for the tax year, your credit is reduced to zero. However, you can still receive a credit from a partnership, S corporation, cooperative, estate, or trust (see the instructions for line 15 on page 8).

How to figure FTEs. To figure the number of FTEs you had for the tax year, you must do the following.

1. Figure the total hours of service (discussed below) for the tax year of all individuals considered employees.
2. Divide the total hours of service by 2,080.
3. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. For example, 10.99 is rounded down to 10. However, if the result is less than one, round up to 1.

Employee hours of service. An employee's hours of service for a year include the following.

- Each hour for which the employee is paid, or entitled to payment, for the performance of duties for the employer during the employer's tax year.
- Each hour for which an employee is paid, or entitled to payment, by the employer on account of a period of time during which no duties are performed due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, or leave of absence (except that no more than 160 hours of service are required to be counted for an employee on account of any single continuous period during which the employee performs no duties).

Do not include hours of service of any seasonal employee who worked 120 or fewer days during the tax year. Also, do not include more than 2,080 hours of service from any employee.

To figure the total number of hours of service you must take into account for an employee for the year, you can use any of the following methods.

Actual hours worked method. Determine actual hours of service from records of hours worked and hours for which payment is made or due (payment is made or due for vacation, holiday, illness, incapacity, etc., as described above).

Days-worked equivalency method. Use a days-worked equivalency whereby the employee is credited with 8 hours of service for each day for which the employee would be required to be credited with at least one hour of service under the rules described above.

Weeks-worked equivalency method. Use a weeks-worked equivalency whereby the employee is credited with 40 hours of service for each week for which the employee would be required to be credited with at least one hour of service under the rules described above.

Average Annual Wage Limitation

Your credit is reduced if you paid average annual wages of more than $25,000 for the tax year. If you paid average annual wages of $50,000 or more for the tax year, your credit is reduced to zero. However, you can still receive a credit from a partnership, S corporation, cooperative, estate, or trust (see the instructions for line 15 on page 8).

How to figure average annual wages. To figure the average annual wages you paid for the tax year, you must do the following.

1. Figure the total wages paid (discussed below) for the tax year to all individuals considered employees.
2. Divide the total wages paid by the number of FTEs you had for the tax year (discussed earlier).
3. If the result is not a multiple of $1,000 ($1,000, $2,000, $3,000, etc.), round the result down to the next lowest multiple of $1,000. For example, $25,999 is rounded down to $25,000.

Employee wages paid. Wages, for this purpose, mean wages subject to social security and Medicare tax withholding determined without considering any wage base limit. But do not include wages paid to any seasonal employees who worked 120 or fewer days during the tax year.

Employer Premiums Paid

Only premiums you paid for health insurance coverage under a qualifying arrangement (discussed later) for individuals considered employees are counted when figuring your credit. For this purpose, if you are entitled to a state tax credit or a state premium subsidy paid directly to you for premiums you paid, do not reduce the amount you paid by the credit or subsidy amount. Also, if a state pays a premium subsidy directly to your insurance provider, treat the subsidy amount as an amount you paid for employee health insurance coverage.

If you pay only a portion of the premiums and your employees pay the rest, only the portion you pay is taken into account. For this purpose, any premium paid through a salary reduction arrangement under a section 125 cafeteria plan is not treated as an employer paid premium. For more information on cafeteria plans, see section 1 of Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Example 3. You offer health insurance coverage to employees under a qualifying arrangement that requires you to pay 60% of the premium cost for single (employee-only) coverage for each employee enrolled in any health insurance coverage you provide to employees. The total premium for each employee enrolled in single (employee-only) coverage is $5,200 per year or $100 ($5,200 ÷ 52) for each weekly payday. The total premium for each employee enrolled in family coverage is $12,376 per year or $238 ($12,376 ÷ 52) for each weekly payday.

Each payday you contribute $60 (60% of $100) toward the premium cost of each employee enrolled in single (employee-only) coverage and withhold the remaining $40 from the employee's paycheck to obtain the $100 total weekly premium. Each payday you contribute $60 (the same amount you pay toward the premiums of employees enrolled in single coverage) toward the premium cost of each employee enrolled in family coverage and withhold the remaining $178 from the employee's paycheck to obtain the $238 total weekly premium.

To determine the premiums you paid during the tax year, multiply the number of pay periods during which the employee was enrolled in the health insurance coverage by $60. For example, you would have paid $3,120 ($60 × 52) for an employee who was enrolled for the entire tax year. You would have paid $600 ($60 × 10) for an employee who was only enrolled for 10 pay periods. You will need an additional set of calculations if the premium amounts changed during the tax year.

Health Insurance Coverage

For credit purposes, health insurance coverage means benefits consisting of medical care (provided directly, through insurance or reimbursement, or otherwise) under any hospital or medical service policy or certificate, hospital or medical service plan contract, or health maintenance organization contract offered by a health insurance provider.

A health insurance provider is either an insurance company or another entity licensed under state law to provide health insurance coverage.

Health insurance coverage also includes coverage under the following plans.

- Limited scope dental or vision plans.
- Long-term care plans.
- Nursing home care plans.
- Home health care plans.
- Community-based care plans.
- Any combination of the above.

In addition, health insurance coverage includes the following.

- Coverage only for a specified disease or illness.
- Hospital indemnity or other fixed indemnity insurance.
- Medicare supplemental health insurance.
- Certain other supplemental coverage.
- Similar supplemental coverage provided to coverage under a group health plan.

CAUTION *Employer premiums paid for health insurance coverage can be counted in figuring the credit only if the premiums are paid under a qualifying arrangement.*

Health insurance coverage **does not** include the following benefits.

- Coverage only for accident, or disability income insurance, or any combination thereof.
- Coverage issued as a supplement to liability insurance.
- Liability insurance, including general liability insurance and automobile liability insurance.
- Workers' compensation or similar insurance.
- Automobile medical payment insurance.
- Credit-only insurance.
- Coverage for on-site medical clinics.
- Other similar insurance coverage, specified in regulations, under which benefits for medical care are secondary or incidental to other insurance benefits.

Also, because the coverage must be offered by a health insurance provider as discussed above, health insurance coverage does not include benefits provided by the following.

- Health reimbursement arrangements (HRAs).
- Flexible spending arrangements (health FSAs).
- Coverage under other self-insured plans.
- Health savings accounts (HSAs).

However, health insurance coverage may include coverage under the following plans.

- Church welfare benefit plans.
- Multiemployer health and welfare plans that provide coverage through a health insurance provider.

For details, see Notice 2010-82 as discussed under *More Information* on page 5.

Qualifying Arrangement

For a tax year beginning in 2010 only, a qualifying arrangement includes any arrangement that requires you to pay at least 50% of the premium cost for single (employee-only) coverage for each employee enrolled in any health insurance coverage you provide to employees, even if these contributions do not represent the same percentage of the premium for all of these employees. If an employee receives more expensive coverage (such as family coverage), it is still a qualifying arrangement if the employer pays at least 50% of the premium for single coverage even if that is less than 50% of the actual premium for the employee.

In addition, certain employers who do not satisfy the above rule (because they contribute less than 50% of the employee-only premium for some enrolled employees) may still qualify for the credit under other rules for qualifying arrangements. This may include, for example, employers who offer more than one type of health insurance coverage or whose insurance provider does not charge the same premium for all employees enrolled in single (employee-only) coverage. For details, see Notice 2010-82 as discussed under *More Information* on page 5.

Different types of health insurance plans are generally not aggregated for purposes of meeting the qualifying arrangement requirement. For example, if you offer a major medical insurance plan and a stand-alone vision plan, you generally must separately satisfy the requirements for a qualifying arrangement with respect to each type of coverage.

For this purpose, if you are entitled to a state tax credit or a state premium subsidy paid directly to you for premiums you paid, do not reduce the amount you paid by the credit or subsidy amount. Also, if a state pays a premium subsidy directly to your insurance provider, treat the subsidy amount as an amount you paid for employee health insurance coverage.

For a special rule that applies to multiemployer health and welfare plans, see Notice 2010-82 as discussed under *More Information* on page 5.

State Average Premium Limitation

Your credit is reduced if the employer premiums paid are more than the employer premiums that would have been paid if individuals considered employees enrolled in a plan with a premium equal to the average premium for the small group market in the state in which the employee works. The following table lists the average premium for the small group market in each state for tax years beginning in 2010. Family coverage includes any coverage other than single (employee-only) coverage.

Table A. State Average Premiums for Small Group Markets

State	Single (Employee-Only) Coverage	Family Coverage
Alabama	$4,441	$11,275
Alaska	6,204	13,723
Arizona	4,495	10,239
Arkansas	4,329	9,677
California	4,628	10,957
Colorado	4,972	11,437
Connecticut	5,419	13,484
Delaware	5,602	12,513
District of Columbia	5,355	12,823
Florida	5,161	12,453
Georgia	4,612	10,598
Hawaii	4,228	10,508
Idaho	4,215	9,365
Illinois	5,198	12,309
Indiana	4,775	11,222
Iowa	4,652	10,503
Kansas	4,603	11,462
Kentucky	4,287	10,434
Louisiana	4,829	11,074
Maine	5,215	11,887
Maryland	4,837	11,939
Massachusetts	5,700	14,138
Michigan	5,098	12,364
Minnesota	4,704	11,938
Mississippi	4,533	10,501
Missouri	4,663	10,681
Montana	4,772	10,212
Nebraska	4,715	11,169
Nevada	4,553	10,297
New Hampshire	5,519	13,624
New Jersey	5,607	13,521
New Mexico	4,754	11,404
New York	5,442	12,867
North Carolina	4,920	11,583
North Dakota	4,469	10,506
Ohio	4,667	11,293
Oklahoma	4,838	11,002
Oregon	4,681	10,890
Pennsylvania	5,039	12,471
Rhode Island	5,887	13,786
South Carolina	4,899	11,780
South Dakota	4,497	11,483
Tennessee	4,611	10,369
Texas	5,140	11,972
Utah	4,238	10,935
Vermont	5,244	11,748
Virginia	4,890	11,338
Washington	4,543	10,725
West Virginia	4,986	11,611
Wisconsin	5,222	12,819
Wyoming	5,266	12,163

Example 4. Assume the same facts that were used in *Example 3.* The $60 you contribute each payday toward employee health insurance coverage is 60% ($60 ÷ $100) of the weekly premium for each employee enrolled in single (employee-only) coverage and 25.21% ($60 ÷ $238) of the weekly premium for each employee enrolled in family coverage.

In this situation, the total average premium limitation amounts that apply are 60% of the applicable amounts shown in the single coverage column of Table A for each employee enrolled in single coverage and 25.21% of the applicable amounts shown in the family coverage column of Table A for each employee enrolled in family coverage.

You have an employee enrolled in single (employee-only) coverage who works for you in Maryland. The single coverage amount shown in Table A for Maryland is $4,837 or $93 ($4,837 ÷ 52) for each weekly payday. The amount you are considered to have paid toward this employee's health insurance coverage based on the average premiums in Table A is $55.80 (60% of $93) each payday.

To determine the premiums you would have paid for this employee during the tax year if the employee had enrolled in a state-average-premium plan, multiply the number of pay periods during which your employee was enrolled in the health insurance coverage by $55.80. For example, you would have paid $2,901.60 ($55.80 × 52) if the employee was enrolled for the entire tax year. You would have paid $558 ($55.80 × 10) if the employee was only enrolled for 10 pay periods. You will need an additional set of calculations if the premium amounts changed during the tax year.

State Premium Subsidy and Tax Credit Limitation

Your credit may be reduced if you are entitled to a state tax credit or a state premium subsidy for the cost of health insurance coverage you provide under a qualifying arrangement to individuals considered employees. The state tax credit may be refundable or nonrefundable and the state premium subsidy may be paid to you or directly to your insurance provider.

Although a state tax credit or premium subsidy paid directly to you does not reduce the amount of your employer premiums paid, and although a state premium subsidy paid directly to an insurance provider is treated as an employer premium you paid, the amount of your credit cannot be more than your net premium payments. Net premium payments are employer premiums paid (discussed earlier) minus the amount of any state tax credits you received or will receive and any state premium subsides paid either to you or directly to your insurance provider for premiums for health insurance coverage you provide under a qualifying arrangement to individuals considered employees.

Payroll Tax Limitation for Tax-Exempt Small Employers

The credit for tax-exempt small employers cannot exceed the amount of certain payroll taxes. For tax years beginning in 2010, payroll taxes, for this purpose, mean only the following taxes.

- Federal income taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to pay for calendar year 2010.

Premium Deduction Reduced

Your deduction for the cost of providing health insurance coverage to your employees is reduced by the amount of any credit for small employer health insurance premiums allowed with respect to the coverage.

More Information

For more information about this credit, see the following.

- Section 45R.
- Notice 2010-44, 2010-22 I.R.B. 717, available at *www.irs.gov/irb/2010-22_IRB/ar12.html.*
- Notice 2010-82 available in Internal Revenue Bulletin 2010-51 at *www.irs.gov/irb* and at *http://www.irs.gov/pub/irs-drop/n-10-82.pdf.*
- IRS.gov.

Specific Instructions

TIP *If your only source for this credit is a partnership, S corporation, cooperative, estate, or trust, skip lines 1 through 14 of the form and report the credit you received from these sources on line 15.*

Worksheets 1 through 7 can help you figure the amounts to report on various lines of Form 8941.

- Use Worksheets 1, 2, and 3 to figure the amounts to report on lines 1 through 3 of Form 8941.
- Use Worksheet 4 to figure the amounts to report on lines 4 and 5 of Form 8941.
- Use Worksheets 5, 6, and 7 if you need to figure amounts to report on lines 8, 9, and 14 of Form 8941.

Line 1

Enter the total number of individuals considered employees shown in column (a) of Worksheet 1. For details, see *Individuals Considered Employees* on page 2.

Instructions for Worksheet 1

Column (a). Enter the name or other identifying information for all individuals considered employees for purposes of this credit. For details, see *Individuals Considered Employees* on page 2.

Column (b). Enter the total hours of service for the tax year for each employee listed in column (a). Do not enter more than 2,080 hours for any employee. But enter -0- for seasonal employees who worked 120 or fewer days during the tax year. The information in this column is used to figure your number of full-time equivalent employees on Worksheet 2. For details, see *FTE Limitation* on page 2.

CAUTION *Complete Worksheet 2 before you complete column (c).* ***Do not*** *complete column (c) if Worksheet 2, line 3, is 25 or more.*

Column (c). Enter the total wages paid for the tax year for each employee listed in column (a). But enter -0- for seasonal employees who worked 120 or fewer days during the tax year. The information in this column is used to figure your average annual wages on Worksheet 3. For details, see *Average Annual Wage Limitation* on page 2.

Worksheet 1. Information Needed To Complete Line 1 and Worksheets 2 and 3

If you need more rows, use a separate sheet and include the additional amounts in the totals below.

(a) Individuals Considered Employees	(b) Employee Hours of Service	(c) Employee Wages Paid
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
16.		
17.		
18.		
19.		
20.		
21.		
22.		
23.		
24.		
25.		
Totals:		

Line 2

Enter the number of full-time equivalent employees shown on line 3 of Worksheet 2. For details, see *FTE Limitation* on page 2.

Worksheet 2. Full-Time Equivalent Employees (FTEs)

1. Enter the total employee hours of service from Worksheet 1, column (b)	1.	
2. Hours of service per FTE	2.	2,080
3. **Full-time equivalent employees.** Divide line 1 by line 2. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. However, if the result is less than one, enter 1. Report this amount on Form 8941, line 2	3.	

Line 3

Enter the average annual wages shown on line 3 of Worksheet 3. For details, see *Average Annual Wage Limitation* on page 2.

Worksheet 3. Average Annual Wages

1. Enter the total employee wages paid from Worksheet 1, column (c)	1.	
2. Enter FTEs from Worksheet 2, line 3 . . .	2.	
3. **Average annual wages.** Divide line 1 by line 2. If the result is not a multiple of \$1,000 (\$1,000, \$2,000, \$3,000, etc.), round the result down to the next lowest multiple of \$1,000. Report this amount on Form 8941, line 3	3.	

Line 4

Enter the total employer premiums paid shown in column (b) of Worksheet 4. For details, see *Employer Premiums Paid* on page 3.

Line 5

Enter the total employer-state-average premiums shown in column (c) of Worksheet 4. For details, see *State Average Premium Limitation* on page 4.

Instructions for Worksheet 4

Column (a). Enter the name or other identifying information for each individual listed in column (a) of Worksheet 1 who was enrolled in health insurance coverage you provided to employees during the tax year under a qualifying arrangement. For details, see *Health Insurance Coverage* and *Qualifying Arrangement* on page 3.

Column (b). Enter the total employer premiums paid for the tax year for each employee listed in column (a). For details, see *Employer Premiums Paid* on page 3.

Column (c). Enter, for each employee listed in column (a), the premiums you would have paid if the employee had enrolled in a plan or plans with a total premium equal to the average premium for the small group market in the state in which the employee works. For details, see *State Average Premium Limitation* on page 4.

CAUTION

***Do not** complete column (d) if Form 8941, line 12, is zero.*

Column (d). Enter the amount from column (b) of Worksheet 1 for each employee listed in column (a) of Worksheet 4.

Worksheet 4. Information Needed To Complete Lines 4 and 5 and Worksheet 7

If you need more rows, use a separate sheet and include the additional amounts in the totals below.

(a) Enrolled Individuals Considered Employees	(b) Employer Premiums Paid	(c) Employer State Average Premiums	(d) Enrolled Employee Hours of Service
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
21.			
22.			
23.			
24.			
25.			
Totals:			

Line 8

If the number of FTEs reported on line 2 is 10 or less, your credit is not reduced by the FTE limitation. Enter on line 8 the amount from line 7. If line 2 is more than 10, enter on line 8 the reduced credit amount shown on Worksheet 5, line 6.

Worksheet 5. FTE Limitation

1. Enter the amount from Form 8941, line 7 . . 1. ______
2. Enter the amount from Form 8941, line 2 . . . . 2. ______
3. Subtract 10 from line 2 . . . . . . 3. ______
4. Divide line 3 by 15. Enter the result as a decimal (rounded to at least 3 places) . . . . 4. ______
5. Multiply line 1 by line 4 . . . . 5. ______
6. Subtract line 5 from line 1. Report this amount on Form 8941, line 8 . . . . 6. ______

Line 9

If the average annual wages reported on line 3 are $25,000 or less, your credit is not reduced by the average annual wage limitation. Enter on line 9 the amount from line 8. If line 3 is more than $25,000, enter on line 9 the reduced credit amount shown on Worksheet 6, line 7.

Worksheet 6. Average Annual Wage Limitation

1. Enter the amount from Form 8941, line 8 . . . 1. ______
2. Enter the amount from Form 8941, line 7 . . . . 2. ______
3. Enter the amount from Form 8941, line 3 . . . . 3. ______
4. Subtract $25,000 from line 3 . . . . 4. ______
5. Divide line 4 by $25,000. Enter the result as a decimal (rounded to at least 3 places) . . . . 5. ______
6. Multiply line 2 by line 5 . . . . 6. ______
7. Subtract line 6 from line 1. Report this amount on Form 8941, line 9 . . . . 7. ______

Line 10

Enter the total amount of any state premium subsidies paid and any state tax credits available to you for premiums included on line 4. For details, see *State Premium Subsidy and Tax Credit Limitation* on page 5.

Line 13

Enter the total number of individuals shown in column (a) of Worksheet 4. These are individuals considered employees for whom you paid premiums during the tax year for health insurance coverage under a qualifying arrangement.

Line 14

Enter the number of full-time equivalent employees (FTEs) shown on line 3 of Worksheet 7. These are FTEs for whom you paid premiums for health insurance coverage under a qualifying arrangement during the tax year.

Worksheet 7. FTEs Enrolled in Coverage

1. Enter the total enrolled employee hours of service from Worksheet 4, column (d) . .	1.	
2. Hours of service per FTE	2.	2,080
3. Divide line 1 by line 2. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. However, if the result is less than one, enter 1. Report this amount on Form 8941, line 14	3.	

Line 15

Enter any credit for small employer health insurance premiums from:

- Schedule K-1 (Form 1065), box 15 (code P),
- Schedule K-1 (Form 1120S), box 13 (code P),
- Schedule K-1 (Form 1041), box 13 (code G), and
- Any notice of credit allocation you receive from a cooperative.

Line 17

Enter the amount included on line 16 that is from a passive activity. Generally, a passive activity is a trade or business in which you did not materially participate. Rental activities are generally considered passive activities, whether or not you materially participate. For details, see Form 8582-CR, Passive Activity Credit Limitations (for individuals, trusts, and estates), or Form 8810, Corporate Passive Activity Loss and Credit Limitations (for corporations).

Line 19

Enter the passive activity credit for small employer health insurance premiums allowed for 2010 from Form 8582-CR or Form 8810.

Line 20

Use line 20 to show any carryback if you amend your 2010 return to carry back an unused credit for small employer health insurance premiums from 2011.

Line 22

Cooperatives. A cooperative described in section 1381(a) must allocate to its patrons the credit in excess of its tax liability. Therefore, to figure the unused amount of the credit allocated to patrons, the cooperative must first figure its tax liability. While any excess is allocated to patrons, any credit recapture applies as if the cooperative had claimed the entire credit.

Estates and Trusts. Allocate the credit on line 21 between the estate or trust and the beneficiaries in the same proportion as income was allocated and enter the beneficiaries' share on line 22.

Line 24

Enter the total amount of certain payroll taxes. Payroll taxes, for this purpose, means only the following taxes.

- Federal income taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to pay for calendar year 2010.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping	12 hr., 46 min.
Learning about the law or the form	1 hr., 23 min.
Preparing and sending the form to the IRS	2 hr., 48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.