



October 30, 2013

Health Care Reform: Small Business Health Care Tax Credit—2014 Changes

On August 23, 2013, the Internal Revenue Service (IRS) released a **Proposed Rule** to fully implement the Small Business Health Care Tax Credit (Tax Credit) program under the Affordable Care Act (ACA). This program has been operational since 2010 but was operating under the provisions of the ACA statute itself [as implemented through notices from the IRS (**here** and **here**)], rather than under a formal regulation.

The new Proposed Rule includes changes that significantly impact how the Tax Credit will work for churches and other employers within The United Methodist Church (UMC). Under the new rule, local churches and other UMC employers will be eligible for the Tax Credit for coverage beginning on or after January 1, 2014, *only if coverage is purchased through the ACA's Health Insurance Marketplaces, namely through the Small Business Health Options Program (SHOP) Marketplace in the employers' respective states*. You can read more about the SHOP **here** and at **www.healthcare.gov**.

See "Tax Credit 2014 and Beyond—Changes" on page 2 for more details about this newest rule.

Background Information on Tax Credit

The General Board of Pension and Health Benefits (General Board) previously published multiple documents regarding the Small Business Health Care Tax Credit program and its impact on UMC churches and employers. This information is available on the General Board's **health care reform web page** (select by "**audience**" and then search under the **Local Church** heading).

Tax Credit 2010-2013

The Tax Credit aims to make it more affordable for small employers to offer health coverage to their employees. *For tax years 2010 through 2013, churches and other tax-exempt entities are eligible for a Tax Credit up to 25% for health insurance premiums they pay to cover their employees.* The deadline to submit **Form 990-T** to receive the Tax Credit for 2013 is **May 15, 2014**.

Generally, the Tax Credit applies only to fully-insured plans rather than most self-insured employer plans. However, under the IRS's interpretation of the Tax Credit in **Notice 2010-82**, local churches were eligible for the Tax Credit for coverage of clergy and lay employees through a self-insured "church health plan." This means UMC churches can claim the Tax Credit for tax years 2010 through 2013 for coverage paid on behalf of clergy or lay employees through: (1) a commercial health insurance company, (2) a fully-insured annual conference health plan, (3) a self-insured annual conference health plan, or (4) the HealthFlex plan if offered through their annual conference (the self-insured health plan administered by the General Board).

Tax Credit 2014 and Beyond—Changes

Several important changes to the Small Business Health Care Tax Credit take effect **January 1, 2014**:

- **SHOP Requirement**--Employers will be eligible for the Tax Credit *only if they purchase health insurance through the new SHOP Marketplace*. The SHOP is one component of the Internet-based Health Insurance Marketplace, also known as exchanges, which launched on October 1, 2013.
- **Tax Credit Increases**—The maximum Tax Credit increases from 25% to **35%** of paid employee premiums for tax-exempt employers such as local churches. (The maximum Tax Credit for for-profit organizations increases from 35% to 50%.)

Important: For tax-exempt organizations, the Tax Credit is a refund of employment taxes paid (FICA) and federal income tax withheld from employees' wages. This Tax Credit is limited to the amount of employment taxes the tax-exempt employer has paid to the IRS for the given year.

- **Two-Year Limit:** The Tax Credit is available only for *two consecutive tax years after 2013*. For example, an employer can claim the Tax Credit for 2014 and 2015, but then cannot claim it in years thereafter.

Tax Credit Eligibility

An employer must meet *all three* of the following criteria to qualify for the Tax Credit:

- Have fewer than 25 full-time equivalent employees for the tax year;
- Pay average annual wages of less than \$50,000. (Note: The pastor's salary does not count in this wages calculation, because he or she is considered self-employed for employment tax purposes.); and
- Pay at least 50% of the premium for qualifying employee health insurance.

Employers with fewer than 10 full-time equivalent employees and average annual wages of \$25,000 or less are eligible for the full amount of the Tax Credit. There is a scaled phase-out of the Tax Credit for employers with 10-25 full-time equivalent employees or average annual wages between \$25,000 and \$50,000. Wages criteria are indexed to inflation, so they are expected to increase in years after 2014.

Tax-exempt employers, including UMC churches, can claim the Tax Credit by filing **Form 990-T, Exempt Organization Business Income Tax Return**. Employers can use two IRS resources to help employers to calculate their Tax Credit: **IRS Form 8941, Credit for Small Employer Health Insurance Premiums** and **Instructions to Form 8941**.

Other rules for the Tax Credit, such as a uniform percentage requirement, are explained in the General Board's prior articles and FAQs—available on the **Health Care Reform web page** at www.gbophb.org.

Tax Credit Can Be Claimed for 2010-2012

Employers that are eligible to claim the Tax Credit but were unaware of the Tax Credit and therefore missed filing for it in past years can still file claims for prior years. According to some local churches in the UMC and other denominations, the IRS has accepted late returns (*Form 990-T* for tax-exempt employers accompanied by *Form 8941* for tax years 2010, 2011 and 2012) when an explanation of late filing is attached to the return. The IRS has not stated when it will stop accepting Tax Credit applications ("returns") for previous years. However, if your church wishes to seek the Tax Credit: the sooner your church files the return, the more likely it is to be accepted. For calendar-year employers (January 1–December 31), the filing due date is generally May 15 of the following year (e.g., May 15, 2014 for the 2013 tax-calendar year). For an employer with a fiscal year-end of June 30, for example, the due date would typically be November 15 of the same year.

For More Information

More information about the Tax Credit is available at on the General Board's **health care reform web page** (search by **audience > local church**) and at www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit-for-Small-Employers.

The General Board continues to monitor federal health care reform and provide applicable information for annual conferences, local churches and other UMC employers, as well as information for individuals. Check the General Board's **health care reform web page** frequently for updates.

If you have questions or would like additional information, please send your inquiries to **healthcarereform@gbophb.org**. General information about health care reform is available from the federal government at **www.healthcare.gov**.

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