August 2, 2011

IRS Inquiries Related to Small Business Health Care Tax Credit

The Patient Protection and Affordable Care Act (PPACA) established the Small Business Health Care Tax Credit (Tax Credit) for certain small employers, including churches, for tax years 2010–2013. In Internal Revenue Service (IRS) Notice 2010-82 the IRS specifically stated that local churches and small employers could qualify for the Tax Credit when they obtain coverage through a self-funded church health care plan, such as HealthFlex. In order to claim the refundable credit for 2010, employers were required to submit IRS Form 8941, Credit for Small Employer Health Insurance Premiums and IRS Form 990-T, Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e)) to the IRS no later than May 15, 2011.

Since applying for the Tax Credit, a number of United Methodist local churches have received follow-up inquiries from the IRS regarding their claims. The IRS has sent IRS Form 4564, Information Document Request, to these churches on a random basis—as it has done with other employers. The IRS asks employers (including churches) to complete the Form 4564 and provide additional documentation and information. Questions 8 and 14 on Form 4564 request the details on “type of coverage provided to eligible clergy and lay employees” and ask for evidence of such coverage in the form of a “certificate of insurance” or a “copy of the insurance policy.”

Because HealthFlex is a self-funded church health plan, there is no “certificate of insurance” or “insurance policy” to provide to the employer. However, the General Board of Pension and Health Benefits (General Board) can assist participating local churches and other small employers in responding to the IRS and providing requested information. Upon request from the local church or small employer, the General Board can provide a letter of explanation, a copy of the HealthFlex Summary Plan Description, and the applicable benefits summary and benefits booklet to demonstrate the health coverage.

Upon receiving Form 4564, local churches and other participating small employers in HealthFlex, and their annual conference offices, may contact the General Board’s Compliance Department at compliancedepartment@gbophb.org to request the letter of explanation and supporting documentation for the IRS.

More information about how the Small Business Health Care Tax Credit affects churches, including frequently asked questions and other documents, is provided on the General Board website.