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Understanding New Tax Credits May 11, 2010

Small Business Health Care Tax Credit

In order to qualify for the health care tax credit, a business must have 25 or fewer full-time employee equivalents, with average wages of no more than \$50,000. The employer must cover at least half the cost of health care insurance premiums for the employees based on the single rate. The IRS has created a guide titled "3 SIMPLE STEPS" to help businesses calculate the full-time employee equivalents and the average annual wages. This form is available for download on HBK's website at www.hbkcpas.com.

The credit is available to both for-profit businesses and not-for-profit entities. For tax years 2010 to 2013, the maximum credit is 35% (25% for not-for-profit entities) of the employer's portion of premium costs. The maximum credit is available for employers with 10 or fewer employees and average annual wages of less than \$25,000 and is reduced as the employees increase to 25 and average wages to \$50,000. As with any tax credit, there are additional rules and limits. Please contact your HB&K accountant for more information.

Payroll Tax Exemption

The payroll tax exemption applies to all qualified employers, not just small businesses. A qualified employer is any employer other than the government. This act exempts employers from their share of the 6.2% social security tax on wages paid from March 19, 2010 through December 31, 2010 on qualified employees. Qualified employees are those hired between February 3, 2010 and December 31, 2010 who have been unemployed or employed for less than 40 hours during the 60 days prior to employment. These employees cannot be relatives of the employer. The employee will need to certify by affidavit they have been unemployed or employed for less than 40 hours during the continuous 60 day period prior to employment. Form W-11 can be used to certify the employees. This exemption does not apply to household employees, or employees terminated without cause, in order to replace them with workers who qualify for the exemption. IRS Form W-11 is available for download on our website at www.hbkcpas.com.

Retention Credit

In addition, for each qualified employee retained for 52 consecutive weeks, the employer will be eligible for another credit. This credit is 6.2% of wages paid to the qualified employee over the 52 week period, up to a maximum credit of \$1,000 per employee.

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