Navigating the Small Business Tax Credit

START: Do you (employer) offer health insurance to your employees?

If, "Yes," you might be eligible for the tax credit

If, "No": STOP, you are ineligible for tax credit

SECOND QUESTION: How many full-time equivalent employees (FTE) do you have?

DETOUR: CALCULATION
Formula: FTE = (E$_1$ x H$_1$) + (E$_2$ x H$_2$) + (E$_N$ x H$_N$) / 2080 (rounded down to the nearest whole number)
Calculate the total full-time equivalent employees (FTE) by:
1. Calculating the number of employees **(E)** (excluding owners, partners, family members, and seasonal workers employed 120 days or less)
2. Calculating the total number of hours **(H)** worked for EACH employee (including paid vacation days, holidays, sick leave, disability leave, layoff, jury duty, military duty or leave of absence (capped at no more than 160 hours for an employee for a single continuous period)).
3. Multiplying the number hours worked for each employee and take the sum of this calculation for all employees and dividing it by 2,080 hours to arrive at the total FTE.

If FTE is fewer than 25 you might be eligible for the tax credit

If your FTE is 25 or more: STOP, you are ineligible for tax credit

Employer can get back on the road to the credit by **FIRING EMPLOYEES**

THIRD QUESTION: What is the average annual wage (AAW) across all your employees?

DETOUR: CALCULATION
Formula: PP = (Employer's Share of Premium) (Total Premium)
Calculate the percentage of premiums paid (PP) by:
1. Collecting premium information on ALL health-related insurance policies for which you are seeking a credit. This amount represents total dollars spent by employer's on health insurance premiums **(ESP).**
2. Determining the percentage of the premium paid for your employees enrolled in self-only and family coverage.
NOTE: ESP is capped at 50% of the state's average small group premium. Some employers may reduce health benefits so their premiums don't exceed the average.

FOURTH QUESTION: Do you pay at least 50% of your employees' premiums (including health, vision, dental, long-term care, nursing home care, home health care community-based care)?

Employer can get back on the road to the credit by CUTTING EMPLOYEE WAGES

If AAW is less than $50,000 you might be eligible for the tax credit

If your AAW is $50,000 or higher: STOP, you are ineligible for the tax credit

DETOUR: CALCULATION
Formula: AAW = (E$_1$ x W$_1$) + (E$_2$ x W$_2$) + (E$_N$ x W$_N$) / FTE (rounded down to the nearest $1,000)
Calculate the total wages paid to his/her employees by:
1. Taking the number of employees calculated in question 2
2. Taking the number of hours each employee worked as calculated in question 2
3. Determining the wage **(W)** that was paid for EACH employee for each of the hours worked
4. Multiplying the wage for each employee and taking the sum of this calculation for all employees and dividing it by the number of FTE (see question 2) to arrive at AAW.

If your PP is at least 50%, you might be eligible for the tax credit

If your PP is less than 50%: STOP, you are ineligible for the tax credit

Employer can get back on the road to the credit by CUTTING WAGES or BENEFITS to spend more for insurance

FIFTH QUESTION: You've finally navigated through the winding road, what size tax credit do you qualify for?

DETOUR: CALCULATION
If you have 10 or fewer FTE and $25,000 or less in AAW, you receive the maximum credit (MC) amount.
Taxable small business: MC = ESP x 35%
Tax-exempt small employer: MC = ESP x 25%

DETOUR: CALCULATION
If you have more than 10 FTE and $25,000 or less in AAW, you receive a partial credit (PC1).
PC1 = MC − [MC((FTE − 10) / 15)]

DETOUR: CALCULATION
If you have 10 or fewer FTE and more than $25,000 in AAW, you receive a partial credit (PC2).
PC2 = MC − [MC((AAW-25,000)/$25,000)]

DETOUR: CALCULATION
If you have more than 10 FTE and more than $25,000 in AAW, you receive a partial credit (PC3).
PC3 = MC − [MC((FTE − 10)/15)] + [MC((AAW-$25,000)/$25,000)]