



May 20, 2010



Tax-Exempt Employers May Be Eligible for Healthcare Insurance Tax Credit

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For certain tax-exempt organizations, there is a new incentive for providing healthcare insurance coverage for their employees. In the recently enacted healthcare law, the Patient Protection and Affordable Care Act, a tax credit will be available to qualifying small businesses and tax-exempt employers that pay the premiums of their employees' healthcare insurance coverage.

The law is designed to encourage employers of a small number of employees that earn low to moderate incomes to provide their employees with health care insurance benefits.

For tax years 2010 through 2013, the maximum credit for a qualifying tax-exempt employer is 25% of the employer's premium expenses paid for its employees' healthcare insurance coverage. In 2014, the maximum amount of such credit increases to 35% of the premiums paid.

A tax-exempt organization may qualify for the credit if it pays at least 50% of the premiums for each employee enrolled in such organization's health insurance plan.

In order to be eligible for the credit, a tax-exempt employer must have fewer than 25 full-time equivalent employees for a tax year and the average annual income for such employees must be less than \$50,000. For an employer of part-time employees, it may be possible to receive the credit even if the employer has more than 25 employees because the hours worked by part-time employees are aggregated for the tax year in order to determine the number of full-time equivalent employees. In order to receive the maximum possible credit under the new law, a qualified employer must have 10 or fewer employees and the average annual income of each employee must not exceed \$25,000. If the number of employees exceeds 10 and the average annual income of each employee exceeds \$25,000, this will reduce the amount of the credit.

It is important to note that even if a tax-exempt employer has no

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taxable income for a given year, it will be eligible for a refund in the amount of the credit. The IRS will provide further information regarding how the credit may be claimed.

For additional information on this issue, contact:



Vivian U. Redsar Ms. Redsar is counsel to tax-exempt organizations. She has assisted clients in establishing exempt organizations, obtaining federal and state tax-exemption status and complying with state registration requirements. Her practice includes advising exempt organizations on a wide range of operating, business and tax issues such as unrelated business income, excess business holdings and fundraising.

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