Contribute to Your Employees' Health Insurance

GET CREDIT

Are you a **small business** or **tax-exempt organization** that pays at least half the cost of single health insurance coverage for your employees? If so, you may qualify for a new tax credit. The new **small business health care tax credit** is effective now as part of the Affordable Care Act, which became law this year.

Who's eligible for the credit?

The credit is targeted to help employers with low and moderate income workers afford to offer employees health insurance coverage. Generally, employers that have fewer than 25 full-time equivalent (FTE) employees and pay wages averaging less than $50,000 per employee per year may qualify for the credit. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, employers that have more than 25 individual workers may also qualify if some of their workers are part-time.

How much is the tax credit?

For each year from 2010 through 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and 25 percent of premiums paid by eligible tax-exempt organizations. An enhanced version of the credit will be effective beginning in 2014.

How and when can I claim the credit?

Small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011. Tax-exempt employers can expect additional information in the coming months on how to claim the credit.

Find out more about the credit and how to claim it at www.IRS.gov

IRS

Publication 4862 (05-2010) Catalog Number 55120X Department of the Treasury **Internal Revenue Service** www.irs.gov

3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:

1

Determine the total number of your employees (not counting owners or family members):

Full-time employees: _____
(enter the number of employees who work at least 40 hours per week)

+

Full-time equivalent of part-time employees: _____
(Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)

= [ ] total employees

If the total number of employees is fewer than 25 **GO TO STEP 2**

2

Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees: _____

÷

Divide it by the number of employees from STEP 1: _____
(total wages ÷ number of employees)

= [ ] average wages

If the result is less than $50,000, **AND**

3

You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then

» you may be able to claim the **Small Business Health Care Tax Credit.** Find out more information at **IRS.gov**

IRS

Small Business Health Care Tax Credit Scenarios

Examples of Employers Receiving the Credit

Example 1: Auto Repair Shop with 10 Employees Gets $24,500 Credit for 2010

***Main Street Mechanic*:**

- ***Employees***: 10
- ***Wages***: $250,000 total, or $25,000 per worker
- ***Employee Health Care Costs***: $70,000

2010 Tax Credit: $24,500 (35% credit)

2014 Tax Credit: $35,000 (50% credit)

Example 2: Restaurant with 40 Part-Time Employees Gets $28,000 Credit for 2010

Downtown Diner:

- ***Employees***: 40 half-time employees (the equivalent of 20 full-time workers)
- ***Wages***: $500,000 total, or $25,000 per full-time equivalent worker
- ***Employee Health Care Costs***: $240,000

2010 Tax Credit: $28,000 (35% credit with phase-out)

2014 Tax Credit: $40,000 (50% credit with phase-out)

Example 3: Foster Care Non-Profit with 9 Employees Gets $18,000 Credit for 2010

First Street Family Services.org:

- ***Employees***: 9
- ***Wages***: $198,000 total, or $22,000 per worker
- ***Employee Health Care Costs***: $72,000

2010 Tax Credit: $18,000 (25% credit)

2014 Tax Credit: $25,200 (35% credit)

Form **8941**

Department of the Treasury
Internal Revenue Service

Credit for Small Employer Health Insurance Premiums

▶ **See separate instructions.**
▶ **Attach to your tax return.**

OMB No. 1545-2198

2010

Attachment Sequence No. **63**

Name(s) shown on return

Identifying number

1	Enter the number of individuals you employed during the tax year who are considered employees for purposes of this credit (see instructions)	**1**	
2	Enter the number of full-time equivalent employees you had for the tax year (see instructions). If you entered 25 or more, skip lines 3 through 11 and enter -0- on line 12	**2**	
3	Average annual wages you paid for the tax year (see instructions). If you entered $50,000 or more, skip lines 4 through 11 and enter -0- on line 12	**3**	
4	Premiums you paid during the tax year for employees included on line 1 for health insurance coverage under a qualifying arrangement (see instructions)	**4**	
5	Premiums you would have entered on line 4 if the total premium for each employee equaled the average premium for the small group market in which you offered health insurance coverage (see instructions)	**5**	
6	Enter the **smaller** of line 4 or line 5	**6**	
7	Multiply line 6 by the applicable percentage: • Tax-exempt small employers, multiply line 6 by 25% (.25) • All other small employers, multiply line 6 by 35% (.35)	**7**	
8	If line 2 is 10 or less, enter the amount from line 7. Otherwise, see instructions	**8**	
9	If line 3 is $25,000 or less, enter the amount from line 8. Otherwise, see instructions	**9**	
10	Enter the total amount of any state premium subsidies paid and any state tax credits available to you for premiums included on line 4 (see instructions)	**10**	
11	Subtract line 10 from line 4. If zero or less, enter -0-	**11**	
12	Enter the **smaller** of line 9 or line 11	**12**	
13	If line 12 is zero, skip lines 13 and 14 and go to line 15. Otherwise, enter the number of employees included on line 1 for whom you paid premiums during the tax year for health insurance coverage under a qualifying arrangement (see instructions)	**13**	
14	Enter the number of full-time equivalent employees you would have entered on line 2 if you only included employees included on line 13	**14**	
15	Credit for small employer health insurance premiums from partnerships, S corporations, cooperatives, estates, and trusts (see instructions)	**15**	
16	Add lines 12 and 15. Partnerships and S corporations, stop here and report this amount on Schedule K; all others, go to line 17	**16**	
17	Credit for small employer health insurance premiums included on line 16 from passive activities (see instructions)	**17**	
18	Subtract line 17 from line 16	**18**	
19	Credit for small employer health insurance premiums allowed for 2010 from a passive activity (see instructions)	**19**	
20	Carryback of the credit for small employer health insurance premiums from 2011	**20**	
21	Add lines 18 through 20. Cooperatives, estates, and trusts, go to line 22. Tax-exempt small employers, skip lines 22 and 23 and go to line 24. All others, stop here and report this amount on Form 3800, line 29h	**21**	
22	Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)	**22**	
23	Cooperatives, estates, and trusts, subtract line 22 from line 21. Stop here and report this amount on Form 3800, line 29h	**23**	
24	Enter the amount you paid in 2010 for taxes considered payroll taxes for purposes of this credit (see instructions)	**24**	
25	Tax-exempt small employers, enter the **smaller** of line 21 or line 24 here and on Form 990-T, line 44f	**25**	

2010

Instructions for Form 8941

Department of the Treasury
Internal Revenue Service

Credit for Small Employer Health Insurance Premiums

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Eligible small employers (defined below) use Form 8941 to figure the credit for small employer health insurance premiums for tax years beginning after 2009. The maximum credit is a percentage of premiums the employer paid during the tax year for certain health insurance coverage the employer provided to certain employees. But the credit may be reduced by limitations based on the employer's full-time equivalent employees, average annual wages, state average premiums, and state premium subsidies and tax credits.

For **tax-exempt small employers**, the credit is generally 25% of premiums paid, is also limited to the amount of certain payroll taxes paid, and is claimed as a refundable credit on Form 990-T, Exempt Organization Business Income Tax Return. A tax-exempt small employer is an eligible small employer described in section 501(c) that is exempt from taxation under section 501(a). A tax-exempt employer not described in section 501(c) is generally not eligible to claim this credit. However, a tax-exempt farmers' cooperative subject to tax under section 1381 may be able to claim the credit as a general business credit as discussed next.

For **all other small employers**, the credit is generally 35% of premiums paid, can be taken against both regular and alternative minimum tax, and is claimed as part of the general business credit on Form 3800, General Business Credit.

TIP *If your only source for this credit is a partnership, S corporation, cooperative, estate, or trust, see the Tip under Specific Instructions on page 5.*

Eligible Small Employers

You are an eligible small employer for the tax year if you meet the following three requirements.

1. You paid premiums for employee health insurance coverage under a qualifying arrangement. A qualifying arrangement is generally an arrangement that requires you to pay a uniform percentage (not less than 50%) of the premium cost for each enrolled employee's health insurance coverage (defined on page 3). However, for a tax year beginning in 2010 only, a qualifying arrangement includes any arrangement that requires you to pay at least 50% of the premium cost for single (employee-only) coverage for each employee enrolled in any health insurance coverage you provide to employees, whether or not you pay a uniform percentage of the health care premium cost for each enrolled employee.

In addition, certain employers who do not satisfy the 2010 transition rule discussed above (because they contribute less than 50% of the employee-only premium for some enrolled employees) may still qualify for the credit under other rules for qualifying arrangements. This may include, for example, employers who offer more than one type of health insurance coverage or whose insurance provider does not charge the same premium for all employees enrolled in single (employee-only) coverage. For details, see Notice 2010-82 as discussed under *More Information* on page 5.

For more details, see *Employer Premiums Paid, Health Insurance Coverage,* and *Qualifying Arrangement,* later.

2. You had fewer than 25 full-time equivalent employees (FTEs) for the tax year. You may be able to meet this requirement even if you had 25 or more employees. For details, see *Individuals Considered Employees* and *FTE Limitation,* later.

3. You paid average annual wages for the tax year of less than $50,000 per FTE. For details, see *Individuals Considered Employees* and *Average Annual Wage Limitation,* later.

CAUTION *If you had more than 10 FTEs **and** average annual wages of more than $25,000, the FTE and average annual wage limitations (discussed later) will separately reduce your credit. This may reduce your credit to zero even if you had fewer than 25 FTEs and average annual wages of less than $50,000.*

Employers treated as a single employer. Treat the following employers as a single employer to figure the credit.

- Employers who are corporations in a controlled group of corporations.
- Employers who are members of an affiliated service group.
- Employers who are partnerships, proprietorships, etc., under common control. See Regulations sections 1.414(c)-2, 1.414(c)-3, and 1.414(c)-4 for details.
- Tax-exempt employers under common control. See Regulations section 1.414(c)-5.

For details, see section 45R(e)(5)(A).

TIP *No more than one Form 8941 can be filed with a tax return, unless the exception described in* Example 2 *below applies.*

Example 1. You are a sole proprietor with two separate businesses and you file a separate Schedule C (Form 1040) for each business. You must treat both businesses as a single employer to figure the credit. You will file one Form 8941 for both businesses.

Example 2. You and your spouse are both sole proprietors and file a separate Schedule C (Form 1040) for each of your separate businesses. Neither spouse was an employee of the other spouse or participated in the management of the other spouse's business at any time during the tax year. No more than 50% of the gross income of either business was derived from royalties, rents, dividends, interest, and annuities and you otherwise meet the requirements listed in Regulations section 1.414(c)-4(b)(5)(ii). Do not treat both businesses as a single employer to figure the credit. If you and your

spouse are both eligible small employers, you can file two Forms 8941 with a jointly filed Form 1040.

Individuals Considered Employees

In general, all employees who perform services for you during the tax year are taken into account in determining your FTEs, average annual wages, and premiums paid. Rules that apply to certain types of employees are discussed below.

Excluded employees. The following individuals are not considered employees when you figure this credit. Hours and wages of these employees and premiums paid for them are not counted when you figure your credit.

- The owner of a sole proprietorship.
- A partner in a partnership.
- A shareholder who owns (after applying the section 318 constructive ownership rules) more than 2% of an S corporation.
- A shareholder who owns (after applying the section 318 constructive ownership rules) more than 5% of the outstanding stock or stock possessing more than 5% of the total combined voting power of all stock of a corporation that is not an S corporation.
- A person who owns more than 5% of the capital or profits interest in any other business that is not a corporation.
- Family members or a member of the household who is not a family member but qualifies as a dependent on the individual income tax return of a person listed above. Family members include a child (or descendant of a child), a sibling or step sibling, a parent (or ancestor of a parent), a step-parent, a niece or nephew, an aunt or uncle, or a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. A spouse is also considered a family member for this purpose.

Leased employees. Do not use premiums paid by the leasing organization to figure your credit. Also, a leased employee who is not a common law employee is considered an employee for credit purposes if he or she does all the following.

- Provides services to you under an agreement between you and a leasing organization.
- Has performed services for you (or for you and a related person) substantially full time for at least 1 year.
- Performs services under your primary direction or control.

But do not use hours, wages, or premiums paid with respect to the initial year of service on which leased employee status is based.

Seasonal employees. Seasonal employees who work for you 120 or fewer days during the tax year are not considered employees in determining FTEs and average annual wages. But premiums paid on their behalf are counted in determining the amount of the credit. Seasonal workers include retail workers employed exclusively during holiday seasons.

Household and other nonbusiness employees. Household employees and other employees who are not performing services in your trade or business are considered employees if they otherwise qualify as discussed above. A sole proprietor must include both business and nonbusiness employees to determine FTEs, average annual wages, and premiums paid.

Ministers. A minister performing services in the exercise of his or her ministry is treated as self-employed for social security and Medicare purposes. However, for credit purposes, whether a minister is an employee or self-employed is determined under the common law test for determining worker status. Self-employed ministers are not considered employees.

FTE Limitation

Your credit is reduced if you had more than 10 FTEs for the tax year. If you had 25 or more FTEs for the tax year, your credit is reduced to zero. However, you can still receive a credit from a partnership, S corporation, cooperative, estate, or trust (see the instructions for line 15 on page 8).

How to figure FTEs. To figure the number of FTEs you had for the tax year, you must do the following.

1. Figure the total hours of service (discussed below) for the tax year of all individuals considered employees.
2. Divide the total hours of service by 2,080.
3. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. For example, 10.99 is rounded down to 10. However, if the result is less than one, round up to 1.

Employee hours of service. An employee's hours of service for a year include the following.

- Each hour for which the employee is paid, or entitled to payment, for the performance of duties for the employer during the employer's tax year.
- Each hour for which an employee is paid, or entitled to payment, by the employer on account of a period of time during which no duties are performed due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, or leave of absence (except that no more than 160 hours of service are required to be counted for an employee on account of any single continuous period during which the employee performs no duties).

Do not include hours of service of any seasonal employee who worked 120 or fewer days during the tax year. Also, do not include more than 2,080 hours of service from any employee.

To figure the total number of hours of service you must take into account for an employee for the year, you can use any of the following methods.

Actual hours worked method. Determine actual hours of service from records of hours worked and hours for which payment is made or due (payment is made or due for vacation, holiday, illness, incapacity, etc., as described above).

Days-worked equivalency method. Use a days-worked equivalency whereby the employee is credited with 8 hours of service for each day for which the employee would be required to be credited with at least one hour of service under the rules described above.

Weeks-worked equivalency method. Use a weeks-worked equivalency whereby the employee is credited with 40 hours of service for each week for which the employee would be required to be credited with at least one hour of service under the rules described above.

Average Annual Wage Limitation

Your credit is reduced if you paid average annual wages of more than $25,000 for the tax year. If you paid average annual wages of $50,000 or more for the tax year, your credit is reduced to zero. However, you can still receive a credit from a partnership, S corporation, cooperative, estate, or trust (see the instructions for line 15 on page 8).

How to figure average annual wages. To figure the average annual wages you paid for the tax year, you must do the following.

1. Figure the total wages paid (discussed below) for the tax year to all individuals considered employees.
2. Divide the total wages paid by the number of FTEs you had for the tax year (discussed earlier).
3. If the result is not a multiple of $1,000 ($1,000, $2,000, $3,000, etc.), round the result down to the next lowest multiple of $1,000. For example, $25,999 is rounded down to $25,000.

Employee wages paid. Wages, for this purpose, mean wages subject to social security and Medicare tax withholding determined without considering any wage base limit. But do not include wages paid to any seasonal employees who worked 120 or fewer days during the tax year.

Employer Premiums Paid

Only premiums you paid for health insurance coverage under a qualifying arrangement (discussed later) for individuals considered employees are counted when figuring your credit. For this purpose, if you are entitled to a state tax credit or a state premium subsidy paid directly to you for premiums you paid, do not reduce the amount you paid by the credit or subsidy amount. Also, if a state pays a premium subsidy directly to your insurance provider, treat the subsidy amount as an amount you paid for employee health insurance coverage.

If you pay only a portion of the premiums and your employees pay the rest, only the portion you pay is taken into account. For this purpose, any premium paid through a salary reduction arrangement under a section 125 cafeteria plan is not treated as an employer paid premium. For more information on cafeteria plans, see section 1 of Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Example 3. You offer health insurance coverage to employees under a qualifying arrangement that requires you to pay 60% of the premium cost for single (employee-only) coverage for each employee enrolled in any health insurance coverage you provide to employees. The total premium for each employee enrolled in single (employee-only) coverage is $5,200 per year or $100 ($5,200 ÷ 52) for each weekly payday. The total premium for each employee enrolled in family coverage is $12,376 per year or $238 ($12,376 ÷ 52) for each weekly payday.

Each payday you contribute $60 (60% of $100) toward the premium cost of each employee enrolled in single (employee-only) coverage and withhold the remaining $40 from the employee's paycheck to obtain the $100 total weekly premium. Each payday you contribute $60 (the same amount you pay toward the premiums of employees enrolled in single coverage) toward the premium cost of each employee enrolled in family coverage and withhold the remaining $178 from the employee's paycheck to obtain the $238 total weekly premium.

To determine the premiums you paid during the tax year, multiply the number of pay periods during which the employee was enrolled in the health insurance coverage by $60. For example, you would have paid $3,120 ($60 × 52) for an employee who was enrolled for the entire tax year. You would have paid $600 ($60 × 10) for an employee who was only enrolled for 10 pay periods. You will need an additional set of calculations if the premium amounts changed during the tax year.

Health Insurance Coverage

For credit purposes, health insurance coverage means benefits consisting of medical care (provided directly, through insurance or reimbursement, or otherwise) under any hospital or medical service policy or certificate, hospital or medical service plan contract, or health maintenance organization contract offered by a health insurance provider.

A health insurance provider is either an insurance company or another entity licensed under state law to provide health insurance coverage.

Health insurance coverage also includes coverage under the following plans.

- Limited scope dental or vision plans.
- Long-term care plans.
- Nursing home care plans.
- Home health care plans.
- Community-based care plans.
- Any combination of the above.

In addition, health insurance coverage includes the following.

- Coverage only for a specified disease or illness.
- Hospital indemnity or other fixed indemnity insurance.
- Medicare supplemental health insurance.
- Certain other supplemental coverage.
- Similar supplemental coverage provided to coverage under a group health plan.

CAUTION *Employer premiums paid for health insurance coverage can be counted in figuring the credit only if the premiums are paid under a qualifying arrangement.*

Health insurance coverage **does not** include the following benefits.

- Coverage only for accident, or disability income insurance, or any combination thereof.
- Coverage issued as a supplement to liability insurance.
- Liability insurance, including general liability insurance and automobile liability insurance.
- Workers' compensation or similar insurance.
- Automobile medical payment insurance.
- Credit-only insurance.
- Coverage for on-site medical clinics.
- Other similar insurance coverage, specified in regulations, under which benefits for medical care are secondary or incidental to other insurance benefits.

Also, because the coverage must be offered by a health insurance provider as discussed above, health insurance coverage does not include benefits provided by the following.

- Health reimbursement arrangements (HRAs).
- Flexible spending arrangements (health FSAs).
- Coverage under other self-insured plans.
- Health savings accounts (HSAs).

However, health insurance coverage may include coverage under the following plans.

- Church welfare benefit plans.
- Multiemployer health and welfare plans that provide coverage through a health insurance provider.

For details, see Notice 2010-82 as discussed under *More Information* on page 5.

Qualifying Arrangement

For a tax year beginning in 2010 only, a qualifying arrangement includes any arrangement that requires you

to pay at least 50% of the premium cost for single (employee-only) coverage for each employee enrolled in any health insurance coverage you provide to employees, even if these contributions do not represent the same percentage of the premium for all of these employees. If an employee receives more expensive coverage (such as family coverage), it is still a qualifying arrangement if the employer pays at least 50% of the premium for single coverage even if that is less than 50% of the actual premium for the employee.

In addition, certain employers who do not satisfy the above rule (because they contribute less than 50% of the employee-only premium for some enrolled employees) may still qualify for the credit under other rules for qualifying arrangements. This may include, for example, employers who offer more than one type of health insurance coverage or whose insurance provider does not charge the same premium for all employees enrolled in single (employee-only) coverage. For details, see Notice 2010-82 as discussed under *More Information* on page 5.

Different types of health insurance plans are generally not aggregated for purposes of meeting the qualifying arrangement requirement. For example, if you offer a major medical insurance plan and a stand-alone vision plan, you generally must separately satisfy the requirements for a qualifying arrangement with respect to each type of coverage.

For this purpose, if you are entitled to a state tax credit or a state premium subsidy paid directly to you for premiums you paid, do not reduce the amount you paid by the credit or subsidy amount. Also, if a state pays a premium subsidy directly to your insurance provider, treat the subsidy amount as an amount you paid for employee health insurance coverage.

For a special rule that applies to multiemployer health and welfare plans, see Notice 2010-82 as discussed under *More Information* on page 5.

State Average Premium Limitation

Your credit is reduced if the employer premiums paid are more than the employer premiums that would have been paid if individuals considered employees enrolled in a plan with a premium equal to the average premium for the small group market in the state in which the employee works. The following table lists the average premium for the small group market in each state for tax years beginning in 2010. Family coverage includes any coverage other than single (employee-only) coverage.

Table A. State Average Premiums for Small Group Markets

State	Single (Employee-Only) Coverage	Family Coverage
Alabama	$4,441	$11,275
Alaska	6,204	13,723
Arizona	4,495	10,239
Arkansas	4,329	9,677
California	4,628	10,957
Colorado	4,972	11,437
Connecticut	5,419	13,484
Delaware	5,602	12,513
District of Columbia	5,355	12,823
Florida	5,161	12,453
Georgia	4,612	10,598
Hawaii	4,228	10,508
Idaho	4,215	9,365
Illinois	5,198	12,309
Indiana	4,775	11,222
Iowa	4,652	10,503
Kansas	4,603	11,462
Kentucky	4,287	10,434
Louisiana	4,829	11,074
Maine	5,215	11,887
Maryland	4,837	11,939
Massachusetts	5,700	14,138
Michigan	5,098	12,364
Minnesota	4,704	11,938
Mississippi	4,533	10,501
Missouri	4,663	10,681
Montana	4,772	10,212
Nebraska	4,715	11,169
Nevada	4,553	10,297
New Hampshire	5,519	13,624
New Jersey	5,607	13,521
New Mexico	4,754	11,404
New York	5,442	12,867
North Carolina	4,920	11,583
North Dakota	4,469	10,506
Ohio	4,667	11,293
Oklahoma	4,838	11,002
Oregon	4,681	10,890
Pennsylvania	5,039	12,471
Rhode Island	5,887	13,786
South Carolina	4,899	11,780
South Dakota	4,497	11,483
Tennessee	4,611	10,369
Texas	5,140	11,972
Utah	4,238	10,935
Vermont	5,244	11,748
Virginia	4,890	11,338
Washington	4,543	10,725
West Virginia	4,986	11,611
Wisconsin	5,222	12,819
Wyoming	5,266	12,163

Example 4. Assume the same facts that were used in *Example 3.* The $60 you contribute each payday toward employee health insurance coverage is 60% ($60 ÷ $100) of the weekly premium for each employee enrolled in single (employee-only) coverage and 25.21% ($60 ÷ $238) of the weekly premium for each employee enrolled in family coverage.

In this situation, the total average premium limitation amounts that apply are 60% of the applicable amounts shown in the single coverage column of Table A for each employee enrolled in single coverage and 25.21% of the applicable amounts shown in the family coverage column of Table A for each employee enrolled in family coverage.

You have an employee enrolled in single (employee-only) coverage who works for you in Maryland. The single coverage amount shown in Table A for Maryland is $4,837 or $93 ($4,837 ÷ 52) for each weekly payday. The amount you are considered to have paid toward this employee's health insurance coverage based on the average premiums in Table A is $55.80 (60% of $93) each payday.

To determine the premiums you would have paid for this employee during the tax year if the employee had enrolled in a state-average-premium plan, multiply the number of pay periods during which your employee was enrolled in the health insurance coverage by $55.80. For example, you would have paid $2,901.60 ($55.80 × 52) if the employee was enrolled for the entire tax year. You would have paid $558 ($55.80 × 10) if the employee was only enrolled for 10 pay periods. You will need an additional set of calculations if the premium amounts changed during the tax year.

State Premium Subsidy and Tax Credit Limitation

Your credit may be reduced if you are entitled to a state tax credit or a state premium subsidy for the cost of health insurance coverage you provide under a qualifying arrangement to individuals considered employees. The state tax credit may be refundable or nonrefundable and the state premium subsidy may be paid to you or directly to your insurance provider.

Although a state tax credit or premium subsidy paid directly to you does not reduce the amount of your employer premiums paid, and although a state premium subsidy paid directly to an insurance provider is treated as an employer premium you paid, the amount of your credit cannot be more than your net premium payments. Net premium payments are employer premiums paid (discussed earlier) minus the amount of any state tax credits you received or will receive and any state premium subsides paid either to you or directly to your insurance provider for premiums for health insurance coverage you provide under a qualifying arrangement to individuals considered employees.

Payroll Tax Limitation for Tax-Exempt Small Employers

The credit for tax-exempt small employers cannot exceed the amount of certain payroll taxes. For tax years beginning in 2010, payroll taxes, for this purpose, mean only the following taxes.

- Federal income taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to pay for calendar year 2010.

Premium Deduction Reduced

Your deduction for the cost of providing health insurance coverage to your employees is reduced by the amount of any credit for small employer health insurance premiums allowed with respect to the coverage.

More Information

For more information about this credit, see the following.

- Section 45R.
- Notice 2010-44, 2010-22 I.R.B. 717, available at www.irs.gov/irb/2010-22_IRB/ar12.html.
- Notice 2010-82 available in Internal Revenue Bulletin 2010-51 at www.irs.gov/irb and at http://www.irs.gov/pub/irs-drop/n-10-82.pdf.
- IRS.gov.

Specific Instructions

TIP *If your only source for this credit is a partnership, S corporation, cooperative, estate, or trust, skip lines 1 through 14 of the form and report the credit you received from these sources on line 15.*

Worksheets 1 through 7 can help you figure the amounts to report on various lines of Form 8941.

- Use Worksheets 1, 2, and 3 to figure the amounts to report on lines 1 through 3 of Form 8941.
- Use Worksheet 4 to figure the amounts to report on lines 4 and 5 of Form 8941.
- Use Worksheets 5, 6, and 7 if you need to figure amounts to report on lines 8, 9, and 14 of Form 8941.

Line 1

Enter the total number of individuals considered employees shown in column (a) of Worksheet 1. For details, see *Individuals Considered Employees* on page 2.

Instructions for Worksheet 1

Column (a). Enter the name or other identifying information for all individuals considered employees for purposes of this credit. For details, see *Individuals Considered Employees* on page 2.

Column (b). Enter the total hours of service for the tax year for each employee listed in column (a). Do not enter more than 2,080 hours for any employee. But enter -0- for seasonal employees who worked 120 or fewer days during the tax year. The information in this column is used to figure your number of full-time equivalent employees on Worksheet 2. For details, see *FTE Limitation* on page 2.

CAUTION *Complete Worksheet 2 before you complete column (c). **Do not** complete column (c) if Worksheet 2, line 3, is 25 or more.*

Column (c). Enter the total wages paid for the tax year for each employee listed in column (a). But enter -0- for seasonal employees who worked 120 or fewer days during the tax year. The information in this column is used to figure your average annual wages on Worksheet 3. For details, see *Average Annual Wage Limitation* on page 2.

Worksheet 1. Information Needed To Complete Line 1 and Worksheets 2 and 3

If you need more rows, use a separate sheet and include the additional amounts in the totals below.

(a) Individuals Considered Employees	(b) Employee Hours of Service	(c) Employee Wages Paid
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
16.		
17.		
18.		
19.		
20.		
21.		
22.		
23.		
24.		
25.		
Totals:		

Line 2

Enter the number of full-time equivalent employees shown on line 3 of Worksheet 2. For details, see *FTE Limitation* on page 2.

Worksheet 2. Full-Time Equivalent Employees (FTEs)

1. Enter the total employee hours of service from Worksheet 1, column (b) . . . . . 1. _____
2. Hours of service per FTE 2. 2,080
3. **Full-time equivalent employees.** Divide line 1 by line 2. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. However, if the result is less than one, enter 1. Report this amount on Form 8941, line 2 . . . . . 3. _____

Line 3

Enter the average annual wages shown on line 3 of Worksheet 3. For details, see *Average Annual Wage Limitation* on page 2.

Worksheet 3. Average Annual Wages

1. Enter the total employee wages paid from Worksheet 1, column (c) . . . . . 1. _____
2. Enter FTEs from Worksheet 2, line 3 . . . 2. _____
3. **Average annual wages.** Divide line 1 by line 2. If the result is not a multiple of $1,000 ($1,000, $2,000, $3,000, etc.), round the result down to the next lowest multiple of $1,000. Report this amount on Form 8941, line 3 . . . . . 3. _____

Line 4

Enter the total employer premiums paid shown in column (b) of Worksheet 4. For details, see *Employer Premiums Paid* on page 3.

Line 5

Enter the total employer-state-average premiums shown in column (c) of Worksheet 4. For details, see *State Average Premium Limitation* on page 4.

Instructions for Worksheet 4

Column (a). Enter the name or other identifying information for each individual listed in column (a) of Worksheet 1 who was enrolled in health insurance coverage you provided to employees during the tax year under a qualifying arrangement. For details, see *Health Insurance Coverage* and *Qualifying Arrangement* on page 3.

Column (b). Enter the total employer premiums paid for the tax year for each employee listed in column (a). For details, see *Employer Premiums Paid* on page 3.

Column (c). Enter, for each employee listed in column (a), the premiums you would have paid if the employee had enrolled in a plan or plans with a total premium equal to the average premium for the small group market in the state in which the employee works. For details, see *State Average Premium Limitation* on page 4.

CAUTION ***Do not** complete column (d) if Form 8941, line 12, is zero.*

Column (d). Enter the amount from column (b) of Worksheet 1 for each employee listed in column (a) of Worksheet 4.

Worksheet 4. Information Needed To Complete Lines 4 and 5 and Worksheet 7

If you need more rows, use a separate sheet and include the additional amounts in the totals below.

(a) Enrolled Individuals Considered Employees	(b) Employer Premiums Paid	(c) Employer State Average Premiums	(d) Enrolled Employee Hours of Service
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
21.			
22.			
23.			
24.			
25.			
Totals:			

Line 8

If the number of FTEs reported on line 2 is 10 or less, your credit is not reduced by the FTE limitation. Enter on line 8 the amount from line 7. If line 2 is more than 10, enter on line 8 the reduced credit amount shown on Worksheet 5, line 6.

Worksheet 5. FTE Limitation

1. Enter the amount from Form 8941, line 7 . . 1. _____
2. Enter the amount from Form 8941, line 2 . . . . . 2. _____
3. Subtract 10 from line 2 . . . . . 3. _____
4. Divide line 3 by 15. Enter the result as a decimal (rounded to at least 3 places) . . . . . 4. _____
5. Multiply line 1 by line 4 . . . . . 5. _____
6. Subtract line 5 from line 1. Report this amount on Form 8941, line 8 . . . . . 6. _____

Line 9

If the average annual wages reported on line 3 are $25,000 or less, your credit is not reduced by the average annual wage limitation. Enter on line 9 the amount from line 8. If line 3 is more than $25,000, enter on line 9 the reduced credit amount shown on Worksheet 6, line 7.

Worksheet 6. Average Annual Wage Limitation

1. Enter the amount from Form 8941, line 8 . . . 1. _____
2. Enter the amount from Form 8941, line 7 . . . . . 2. _____
3. Enter the amount from Form 8941, line 3 . . . . . 3. _____
4. Subtract $25,000 from line 3 . . . . 4. _____
5. Divide line 4 by $25,000. Enter the result as a decimal (rounded to at least 3 places) . . . . . 5. _____
6. Multiply line 2 by line 5 . . . . . 6. _____
7. Subtract line 6 from line 1. Report this amount on Form 8941, line 9 . . . . . 7. _____

Line 10

Enter the total amount of any state premium subsidies paid and any state tax credits available to you for premiums included on line 4. For details, see *State Premium Subsidy and Tax Credit Limitation* on page 5.

Line 13

Enter the total number of individuals shown in column (a) of Worksheet 4. These are individuals considered employees for whom you paid premiums during the tax year for health insurance coverage under a qualifying arrangement.

Line 14

Enter the number of full-time equivalent employees (FTEs) shown on line 3 of Worksheet 7. These are FTEs for whom you paid premiums for health insurance coverage under a qualifying arrangement during the tax year.

Worksheet 7. FTEs Enrolled in Coverage

1. Enter the total enrolled employee hours of service from Worksheet 4, column (d) . .	1.	
2. Hours of service per FTE	2.	2,080
3. Divide line 1 by line 2. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. However, if the result is less than one, enter 1. Report this amount on Form 8941, line 14	3.	

Line 15

Enter any credit for small employer health insurance premiums from:

- Schedule K-1 (Form 1065), box 15 (code P),
- Schedule K-1 (Form 1120S), box 13 (code P),
- Schedule K-1 (Form 1041), box 13 (code G), and
- Any notice of credit allocation you receive from a cooperative.

Line 17

Enter the amount included on line 16 that is from a passive activity. Generally, a passive activity is a trade or business in which you did not materially participate. Rental activities are generally considered passive activities, whether or not you materially participate. For details, see Form 8582-CR, Passive Activity Credit Limitations (for individuals, trusts, and estates), or Form 8810, Corporate Passive Activity Loss and Credit Limitations (for corporations).

Line 19

Enter the passive activity credit for small employer health insurance premiums allowed for 2010 from Form 8582-CR or Form 8810.

Line 20

Use line 20 to show any carryback if you amend your 2010 return to carry back an unused credit for small employer health insurance premiums from 2011.

Line 22

Cooperatives. A cooperative described in section 1381(a) must allocate to its patrons the credit in excess of its tax liability. Therefore, to figure the unused amount of the credit allocated to patrons, the cooperative must first figure its tax liability. While any excess is allocated to patrons, any credit recapture applies as if the cooperative had claimed the entire credit.

Estates and Trusts. Allocate the credit on line 21 between the estate or trust and the beneficiaries in the same proportion as income was allocated and enter the beneficiaries' share on line 22.

Line 24

Enter the total amount of certain payroll taxes. Payroll taxes, for this purpose, means only the following taxes.

- Federal income taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to pay for calendar year 2010.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

Recordkeeping	12 hr., 46 min.
Learning about the law or the form	1 hr., 23 min.
Preparing and sending the form to the IRS	2 hr., 48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.