

# PPACA: Small Business Tax Credit and Tax Penalties

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# Small Business Tax Credits

- Starts in 2010
- Who qualifies?
  - Fewer than 25 FTEs AND
  - average wages of less than \$50,000 per employee
  - Offers group health insurance
  - Pays at least 50% of the premium

# Small Business Tax Credits

- How much is the maximum credit?
  - 2010 – 2013
    - 35% of employer's contributions (gen business credit)
    - 25% for nonprofits (deduction from payroll/FICA)
  - 2014-2016
    - 50% of employer's contributions
    - 35% for nonprofits
- Phased
  - Full credit if 10 FTEs or less & pay \$25,000 (average taxable wages) or less

# Small Business Tax Credits

**Table 1. Small Business Tax Credit as a Percent (Maximum of 35%) of Employer Contribution to Premiums, For-Profit Firms in 2010-2013 and Nonprofit Firms in 2014+**

Firm size	Average wage					
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000
Up to 10	35%	28%	21%	14%	7%	0%
11	33%	26%	19%	12%	5%	0%
12	30%	23%	16%	9%	2%	0%
13	28%	21%	14%	7%	0%	0%
14	26%	19%	12%	5%	0%	0%
15	23%	16%	9%	2%	0%	0%
16	21%	14%	7%	0%	0%	0%
17	19%	12%	5%	0%	0%	0%
18	16%	9%	2%	0%	0%	0%
19	14%	7%	0%	0%	0%	0%
20	12%	5%	0%	0%	0%	0%
21	9%	2%	0%	0%	0%	0%
22	7%	0%	0%	0%	0%	0%
23	5%	0%	0%	0%	0%	0%
24	2%	0%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%	0%

# Small Business Tax Credits

- % of what?
  - Actual employer contribution or
  - What employer would have paid towards average Vermont premium
    - 2010 – average Vt premium - \$5244 (ind); \$11,748 (family)
- Can't include costs for covering:
  - working owners and their immediate families
  - Seasonal employees (work less than 120 days)

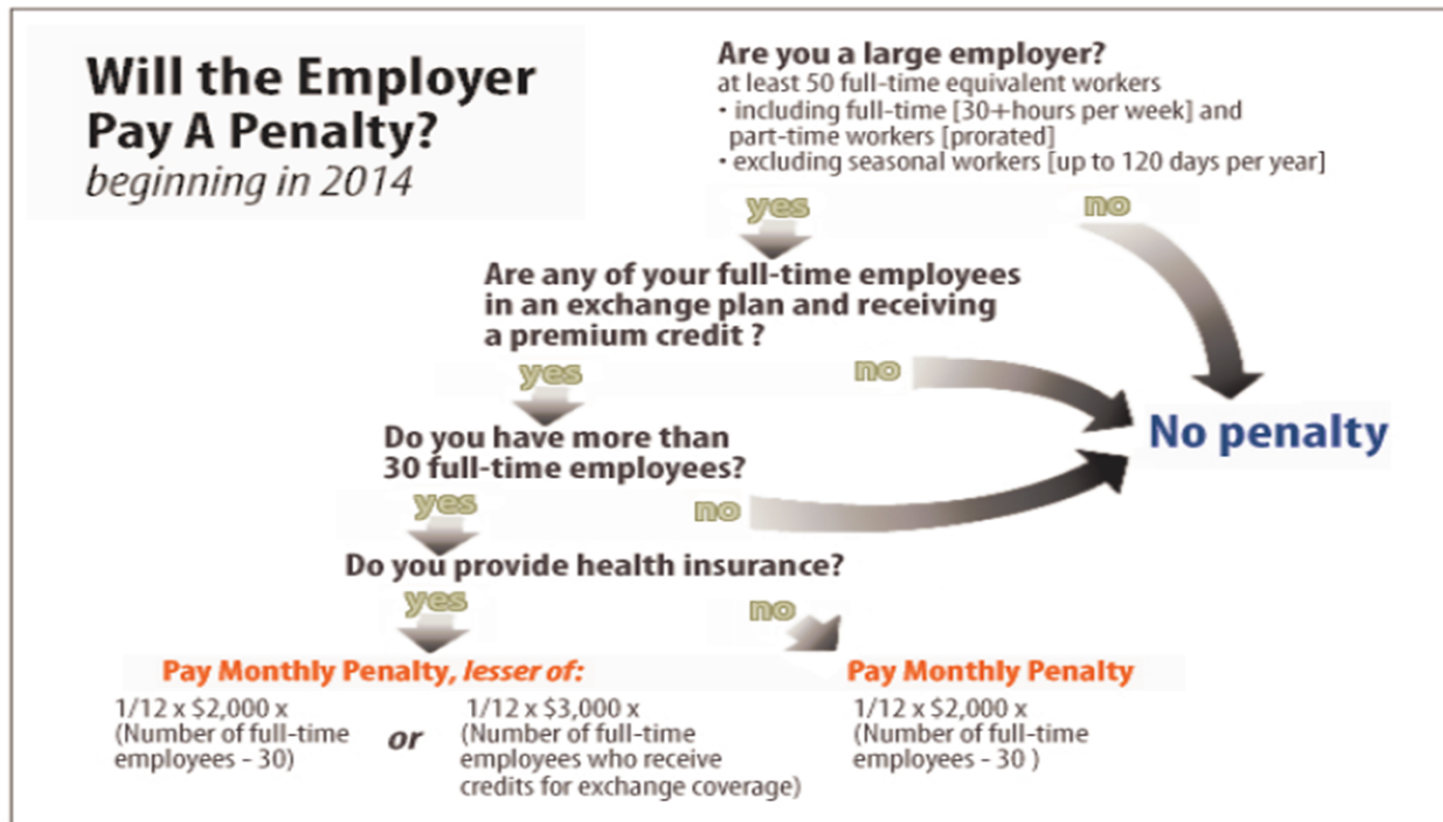
# Employer Penalty

- Penalty for:
  - employers who do not offer insurance
  - Employers who offer unaffordable coverage & whose employees get a subsidy to buy an exchange health benefit plan
- 2014

# Employer Penalty

## Summary of Potential Employer Penalties Under PPACA

Figure 1. Determining if an Employer Will Pay a Penalty



Source: CRS analysis of P.L. 111-148 and P.L. 111-152.

# Employer Penalty

From Chaikind & Peterson, CRS “Summary of Potential Employer Penalties Under the PPACA”, 6/2/10.

**Table I. Determination and Potential Application of Employer Penalty for Categories of Employees**

Employee category	How is this category of employee used to determine “large employer”?	Once an employer is determined to be a “large employer,” could the employer be subject to a penalty if this type of employee received a premium credit?
Full-time	Counted as one employee, based on a 30-hour or more work week	Yes
Part-time	Prorated (calculated by taking the hours worked by part-time employees in a month divided by 120)	No
Seasonal	Not counted, for those working less than 120 days in a year	Yes, for the month in which a seasonal worker is full time
Temporary Agency	Generally, counted as working for the temporary agency (except for those workers who are independent contractors )	Yes, for those counted as working for the temporary agency

**Source:** CRS analysis of P.L. 111-148 and P.L. 111-152.



# Employer Penalty

From Chaikind & Peterson, CRS “Summary of Potential Employer Penalties Under the PPACA”, 6/2/10.

**Table 2. Potential Annual Penalties Beginning in 2014 for Large Employers**

Applies to For-profit and Nonprofit Organizations

Not a large employer: Less than 50 full-time equivalent employees <sup>a</sup>	Large employer: 50 or more full-time equivalent employees <sup>a</sup>			
	Does not offer coverage		Offers coverage	
	A No full-time employees <sup>b</sup> receive credits for exchange coverage <sup>c</sup>	B 1 or more full-time employees <sup>b</sup> receive credits for exchange coverage <sup>c</sup>	C No full-time employees <sup>b</sup> receive credits for exchange coverage <sup>c</sup>	D 1 or more full-time employees <sup>b</sup> receive credits for exchange coverage <sup>d</sup>
No penalty	No penalty	Number of full-time employees <sup>b</sup> minus 30 multiplied by \$2,000  <i>(penalty is \$0 if employer has 30 or fewer full-time employees)</i>	No penalty	Lesser of: Number of full-time employees <sup>b</sup> minus 30, multiplied by \$2,000. Number of full-time employees <sup>b</sup> who receive credits for exchange coverage, multiplied by \$3,000.  <i>(Penalty is \$0 if employer has 30 or fewer full-time employees—because penalty is based on the lesser of the two calculations)</i>

Source: CRS analysis of P.L. 111-148 and P.L. 111-152.

# Individual Mandate

- 2014
- All individuals must have minimum essential health coverage
  - Government-sponsored plan (Medicare, Medicaid, VA, etc)
  - Employer-sponsored plans
  - Plans in the individual market
  - Exchange Plans
- Unclear if there are minimum coverage requirements for these plans.

# Individual Mandate

- Penalties

- GREATER of:

- 1% of Household income minus (standard deduction + personal exemption)
      - E.G. (using 2010 deductions) – assumes 1 person
      - 1% of (\$30,000 - \$9350) = \$206.50
      - Goes up to 2% in 2015; 2.5% 2016 and after
    - Flat dollar amount on each taxpayer + family members
      - \$95 per person in 2014; \$325 in 2015, \$695 in 2016
      - Dependents under 18 – ½ off
      - Total family penalty capped at 300% of flat amount
        - E.G. \$95 \* 300% = \$285

# Individual Mandate

- Doesn't apply to:
  - Individuals w/o insurance for 3 months or less (in a year)
  - Some individuals who are not eligible for the Exchange
    - Immigrants who aren't lawfully present
    - Incarcerated Individuals
  - Indian tribes
  - U.S. citizens residing elsewhere

# Individual Mandate

- Exemptions (assessed by Exchange)
  - “hardship” (defined by Sec of HHS)
  - Income less than standard deduction + personal exemption
    - \$9350 in 2010
  - Individual’s contribution is  $>8\%$  of household income
  - Religious (under IRS rules)
  - Health sharing ministries (under IRS rules)

# Contact Information

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