

Four IRS Examples

As mentioned in our tax credit infographic, here are the four examples the IRS published to help explain the calculation of full-time equivalent employees (FTEs).

Add up the total hours of service for which the employer pays wages to employees during the year (but not more than 2,080 hours for any employee). Divide by 2,080. If the result is not a whole number, round to the next lowest whole number. (If the result is less than one, round up to one FTE). See questions below for information on which employees are counted.

An employee's hours of service include each hour for which he or she is paid, or entitled to payment, during the employer's tax year. Add each hour of paid leave (no more than 160 hours of service are required to be counted for an employee on account of any single continuous period of paid leave).

Three ways to calculate:

- (1) determine actual hours of service from records of hours worked and hours for which payment is made or due, including hours for paid leave;
- (2) use a days-worked equivalency whereby the employee is credited with 8 hours of service for each day for which payment is made or due including days of paid leave; or
- (3) use a weeks-worked equivalency whereby the employee is credited with 40 hours of service for each week for which payment is made or due including weeks of paid leave.

Employers may apply different methods for different classifications of employees, if the classifications are reasonable and consistently applied. For example, it is permissible for an employer to use method 1 for all hourly employees and method 3 for all salaried employees. Employers may change the method for calculating employees' hours of service for each taxable year.

Example 1

For the 2010 tax year, an employer's payroll records indicate that an employee worked 2,000 hours and was paid for an additional 80 hours on account of vacation, holiday and illness. In calculating hours of service, the employer uses a method that counts hours actually worked.

Employee A must be credited with 2,080 hours of service (2,000 hours worked and 80 hours for which payment was made or due).

Example 2

For the 2010 tax year, an employee worked 49 weeks, took two weeks of vacation with pay, and took one week of leave without pay. In calculating hours of service, the employer uses the weeks-worked equivalency method.

Employee B must be credited with 2,040 hours of service (51 weeks multiplied by 40 hours per week).

Example 3

For the 2010 tax year, an employer pays five employees wages for 2,080 hours each, three employees wages for 1,040 hours each, and one employee wages for 2,300 hours. The employer uses a method that counts hours actually worked.

The employer's FTEs would be calculated as follows:

Total hours not exceeding 2,080 per employee is 15,600 hours:

10,400 hours for the five employees paid for 2,080 hours each (5 x 2,080)

3,120 hours for the three employees paid for 1,040 hours each (3 x 1,040)

2,080 hours for the one employee paid for 2,300 hours (lesser of 2,300 and 2,080)

Based on 15,600 hours of service, the employer has seven FTEs (15,600 divided by 2,080 = 7.5, rounded to the next lowest whole number).

Example 4

For the 2010 tax year, an employer has 26 FTEs with average annual wages of \$23,000 each. Only 20 of the employees are enrolled in the employer's health insurance plan.

The hours of service and wages of all employees are taken into consideration to determine whether the employer is qualified for the credit. Because the employer does not have fewer than 25 FTEs for the tax year, the employer is not qualified.

Source: <http://www.irs.gov/newsroom/article/0,,id=252900,00.html>