

## Six IRS Examples

As mentioned in our tax credit article, here are the six examples the IRS published to help explain qualifying health insurance expenses.

Example 1: For the 2010 tax year, a qualified employer has nine FTEs with average annual wages of \$23,000. Six employees are enrolled in single coverage and three employees are enrolled in family coverage. The premiums are \$8,000 for single coverage for the year and \$14,000 for family coverage. The employer pays 50 percent of the premium for single coverage for each employee enrolled in single or family coverage (50 percent x \$8,000 = \$4,000 for each employee).

Number of Employees	Type of Coverage	Total Premiums	NPO Pays
6	Single	\$8,000	\$4,000
3	Family	\$14,000	\$4,000

Source: IRS

Thus, the employer pays \$4,000 of the premium for each of the six employees enrolled in single coverage and \$4,000 of the premium for each of the three employees enrolled in family coverage. The employer satisfies the uniformity requirement.

Example 2: We use the same facts as in Example 1, except that the employer pays 50 percent of the premium for employees enrolled in single coverage (\$4,000 for each of those six employees) but pays none of the premium for employees enrolled in family coverage.

Number of Employees	Type of Coverage	Total Premiums	NPO Pays
6	Single	\$8,000	\$4,000
3	Family	\$14,000	\$0

Source: IRS

The employer does not satisfy the uniformity requirement.

Example 3. For the 2010 tax year, a qualified employer offers a health insurance plan with single and family coverage. The employer has nine FTEs with average annual wages of \$23,000. Four employees are enrolled in single coverage and five are enrolled in family coverage.

The employer pays 50 percent of the premiums for all employees enrolled in single coverage and 50 percent of the premiums for all employees enrolled in family coverage. The employee is responsible for the remainder in each case. The premiums are \$4,000 a year for single coverage and \$10,000 a year for family coverage. The average

premium for the small group market in the employer's state is \$5,000 for single coverage and \$12,000 for family coverage.

The employer's premium payments for each FTE (\$2,000 for single coverage and \$5,000 for family coverage) do not exceed 50 percent of the average premium for the small group market in the employer's state (\$2,500 for single coverage and \$6,000 for family coverage).

Number of Employees	Type of Coverage	Total Premiums	State Avg Premium	Employer Pays 50%
4	Single	\$4,000	\$5,000	\$2,000
5	Family	\$10,000	\$12,000	\$5,000

Source: IRS

Thus, the amount of premiums paid by the employer for purposes of computing the credit equals \$33,000 [(4 x \$2,000) plus (5 x \$5,000)].

Example 4: Assume the same facts as in Example 3, except that the premiums are \$6,000 for single coverage and \$14,000 for family coverage and the employer pays 50 percent of these amounts.

The employer's premium payments for each employee (\$3,000 for single coverage and \$7,000 for family coverage) exceed 50 percent of the average premium for the small group market in the employer's state (\$2,500 for single coverage and \$6,000 for family coverage).

Number of Employees	Type of Coverage	Total Premiums	State Avg Premium	Employer Pays 50%	50% of State Average Prem
4	Single	\$6,000	\$5,000	\$3,000	\$2,500
5	Family	\$14,000	\$12,000	\$7,000	\$6,000

Source: IRS

The amount of premiums paid by the employer for purposes of computing the credit equals \$40,000 [(4 x \$2,500) plus (5 x \$6,000)].

Example 5: For the 2010 tax year, a qualified employer offers a major medical plan and a dental plan. The employer pays 50 percent of the premium cost for single coverage for all employees enrolled in the major medical plan and 50 percent of the premium cost for single coverage for all employees enrolled in the dental plan.

For purposes of calculating the credit, the employer can count the premiums paid for both the major medical and the dental, but only up to the 50 percent cap — an amount equal to 50 percent of the small market average.

Example 6: The employer pays 40 percent of the premium cost for single coverage for all employees enrolled in the dental plan.

The employer cannot take into consideration premiums paid for the dental plan because he did not pay at least 50 percent of the premium.

Source: <http://www.irs.gov/newsroom/article/0,,id=252899,00.html>