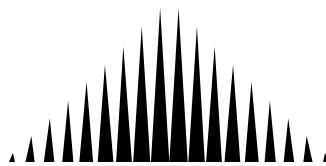


Tax interview appointments are now available for corporations, partnerships and individuals who filed an extension. Please call to schedule your appointment today!

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MAY 2010

Word of the Month

Sesquipedalianism \ses-kwi-PEED-I-iz-uhm\ , adjective

1. Given to using long words.
2. (Of a word) containing many syllables.

IMPORTANT DATES TO REMEMBER

- May 15th — Monthly payroll tax deposits are due
- May 15th—Non-Profit Organizations filing IRS Form 990 due
- May 20th—Georgia monthly sales tax forms and payments due

Thank you to all of our clients who helped get us through tax season. We appreciate all of your patience throughout this busy time for us. For those of you whose returns were completed during this time, congratulations! You made it through another year! For those of you who chose to file an extension, it is time to begin thinking about coming to see us. Please call us today for an appointment. Also, if an extension was filed, please remember to drop your \$75 off at our office or stick it in the mail. For your convenience, you may also pay over the phone with a credit or debit card. Thank you!

IRS Ramps Up Guidance on New Small Employer Health Insurance Tax Credit

The IRS is moving quickly to alert employers about a new tax credit for health insurance premiums. The recently enacted health care reform package (the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010) created the small employer health insurance tax credit. The temporary credit is targeted to small employers that offer or will offer health insurance coverage to their employees. The credit, like so many federal tax incentives, has certain qualifications. Please contact our office and we can arrange to review in detail how the credit may cut the cost of your business's health insurance premiums. The dollar benefits of the credit are substantial and they apply immediately to 2010 premium costs.

Outreach

The IRS is sending postcards to more than four million small businesses in coming weeks. The postcards briefly describe the new tax credit and are just one part of the IRS's outreach campaign to educate employers about the credit. The IRS has also created a special page on its web site on the credit along with a fact sheet and frequently asked questions and answers.

Maximum credit

The new health care credit is effective immediately so employers need to plan now to take advantage of it. The credit, which is available over the next five years, also rises over time but the enhanced credit comes

with some additional requirements. For tax years beginning in 2010 through 2013, the maximum credit reaches 35 percent of qualified premium costs paid by for-profit employers. The maximum credit is 25 percent of qualified premium costs paid by tax-exempt employers. The maximum credit climbs to 50 percent of qualified premium costs paid by for-profit employers (35 percent for tax-exempt employers) for tax years beginning in 2014 through 2015. However, Congress imposed some additional requirements. An employer may claim the credit only if it offers one or more qualified health plans through a state insurance exchange. The health care reform package requires states to create insur-

ance exchanges by January 1, 2014.

Example. ABC Co. employs nine individuals with average annual wages of \$23,000 for each employee in 2010. ABC pays \$72,000 in health care premiums for its employees. This amount does not exceed the average premium for the small group market in the state in which ABC offers coverage and ABC otherwise meets the requirements for the credit. ABC's credit for 2010 is \$25,200 (35 percent x \$72,000).

Tax-exempt employers have additional limitations. If the amount of their credit exceeds the amount of payroll taxes of the tax-exempt employer during the calendar year in which the tax year begins, the credit is limited to the amount of payroll taxes.

FTEs

The maximum credit is available to qualified employers with no more than 10 full-time equivalent (FTE) employees paying average annual wages of \$25,000 or less. The credit completely phases out if an employer has 25 or more FTEs or pays \$50,000 or more in average annual wages. Effectively, a small employer can have exactly 25 FTEs or pay average annual compensation of exactly \$50,000 and not receive a credit under the phase-out rules. The monetary amounts are adjusted for inflation after 2013. The health care reform package explains how to calculate the number of FTEs. The number of an employer's FTEs is determined by dividing the total hours for which the employer pays wages to employees during the year (but not more than 2,080 hours for any employee) by 2,080. The result, if not a whole number, is rounded to the next lowest whole number. Lawmakers selected 2,080 hours because 2,080 hours comprise the number of hours in a 52-week assuming a 40-hour work week. Any hours beyond 2,080, such as overtime hours, are not taken into account when calculating FTEs.

Example. ABC Co has nine employees. ABC pays Aidan, Bonnie, Catherine, David, and Eddie wages for 2,080 hours each for 2010. ABC pays Francine, Gary and Harry wages for 1,040 hours each for 2010. ABC pays Kieran wages for

2,300 hours for 2010. The total hours not exceeding 2,080 per employee is the sum of: --10,400 hours for the five employees paid for 2,080 hours each (5 x 2,080) plus --3,120 hours for the three employees paid for 1,040 hours each (3 x 1,040) plus --2,080 hours for the one employee paid for 2,300 hours (lesser of 2,300 and 2,080), which add up to 15,600 hours.

To calculate the number of FTEs, 15,600 is divided by 2,080, which results in 7.5, rounded to the next lowest whole number.

Average annual wages

A formula is also used to calculate average annual wages. The amount of average annual wages is determined by first dividing the total wages paid by the employer to employees during the employer's tax year by the number of the employer's FTEs for the year. The result is then rounded down to the nearest \$1,000 (if not otherwise a multiple of \$1,000). Example. ABC Co. pays \$224,000 in wages and has 10 FTEs. ABC's average annual wages are \$224,000 divided by 10 which equals \$22,400, and is rounded down to the nearest \$1,000 for a final number of \$22,000

Owners and family members

Some individuals are excluded from the calculation of FTEs and average annual wages. These include a sole proprietor, a partner in a partnership, a shareholder owning more than two percent of an S corporation, and any owner of more than five percent of other businesses. Certain family members of these individuals are also excluded from the calculation of FTEs and average annual wages. These include a child, a parent, a sibling, and others. This list is not exhaustive. Please contact our office for more details about who is excluded from these calculations.

Premium deduction

Employers generally may deduct the cost of health insurance premiums paid on behalf of employees. The health care reform package does not change this general rule. However, the amount of premiums that an employer may deduct is reduced by the amount of the small employer health care

tax credit.

Qualifying arrangement

Only premiums paid by the employer under a qualifying arrangement are counted in calculating the credit. Under a qualifying arrangement, the employer pays premiums for each employee enrolled in health care coverage offered by the employer in an amount equal to a uniform percentage (not less than 50 percent) of the premium cost of the coverage. The IRS is developing transition relief for 2010. Additionally, the amount of an employer's premium payments is capped in relation to the average premium for the small group market. The U.S. Department of Health and Human Services will determine the average premium for the small group market in a state.

Congress is currently reviewing the costs of premiums. The health care reform package includes a requirement, effective in 2011, that insurance companies spend at least 80 percent of premium revenue on actual health care. Additionally, the health care reform package establishes a process for the annual review of premium increases prior to their use along with public disclosure of how premium rates are determined.

Claiming the credit

Qualified for-profit employers will claim the credit on their annual income tax return. The IRS is expected to advise how tax-exempt employers will claim the credit. Our office will keep you posted of developments.

According to the U.S. Department of Health and Human Services, a qualified small business can choose to start offering health insurance coverage to employees in 2010 and be eligible for the credit. If you are considering providing insurance coverage to your employees, please contact our office. If you have already been paying premiums, don't leave maximizing the new credit to chance; we can help you navigate the many federal rules that come into play.

As always, please contact our office if you have any questions about the new small employer health insurance tax credit.

770-920-2890