



# PPACA and Small Business Taking Advantage of Health Care Tax Credits

## Summary

As large employers prepare for the Patient Protection and Affordable Care Act (PPACA) mandates to take full effect in 2015, small businesses struggle to determine the impact PPACA will have on their operation. It is important for them to recognize and evaluate the significant tax credits built into PPACA specifically for small employers. This white paper examines eligibility criteria for PPACA tax credits and how a time and attendance system can ease the eligibility determination process.

## Small Businesses Fall Behind in PPACA Preparation

A survey of small business owners conducted by eHealthInsurance in 2012 revealed that 85 percent are undertaking no long-term planning for the expected impact of PPACA on their businesses.<sup>1</sup> This surprising trend continues even though PPACA provisions will take full effect in 2015.

Only businesses that meet the definition of a “large employer,” that is, businesses that employ at least 50 full-time or full-time equivalent (FTE) employees the previous calendar year, are subject to PPACA mandates and penalties.<sup>2</sup> In most cases, businesses will know if they meet the large employer criteria without conducting full-time and FTE calculations. Since many small businesses won’t meet these criteria, they’re left wondering exactly how PPACA will affect them.

## PPACA Tax Benefits to Small Businesses

If a small business does not meet the large employer criteria, it is free from PPACA obligations. But many small businesses can plan to take advantage of the Small Business Health Care Tax Credit by offering health benefits to employees.

Through 2013, the maximum tax credit for small business employers is 35 percent; beginning January 1, 2014, an “enhanced version” of the credit will take effect, increasing the maximum to as much as 50 percent. Other benefits include the ability to carry the credit forward or backward to other tax years and claim a business expense deduction for health insurance premiums paid in excess of the credit.<sup>3</sup>

## PPACA Tax Credits—Who Qualifies?

An organization qualifies for the Small Business Health Care Tax Credit if it:

- Employs fewer than 25 full-time equivalent (FTE) employees
- Pays at least 50 percent of employees’ health insurance premiums
- Pays an average wage of less than \$50,000 per year

## Determining Full-Time Equivalency

To determine eligibility for the tax credit, the IRS proposes the rule of thumb that two half-time workers equal one full-time worker. Under this 2:1 rule, a business that actually employs 30 part-time employees has the equivalent of 15 full-time employees, thus meeting the tax credit’s employee quota.

### Understanding FTE Calculations

It is important to note that the qualifications for the Small Business Health Care Tax Credit and PPACA large employer status do not coincide. That is, if an organization does not meet the criteria to be considered a large employer, this does not make them automatically eligible for the tax credit (or vice versa). In fact, the definitions and calculations used to determine a full-time or FTE employee are fundamentally different for the tax credit versus PPACA. Where the tax credit employs a simple 2:1 ratio for its FTE calculation, the PPACA uses much more specific criteria to define full-time employee and uses a separate formula to calculate the number of FTEs employed by an applicable large employer.

To learn more about PPACA’s large employer criteria, download *PPACA Shared Responsibility: Ensuring Healthcare Reform Compliance* at <http://attendanceondemand.com/resources/whitepapers/PPACASharedResponsibility.pdf>



## Payment of Health Insurance Premiums

To qualify for the tax credit, small employers must cover at least half the cost of single—not family—health insurance premiums for every employee.

## Figuring Average Wages

To figure average wages for employees, businesses must first determine the number of FTEs they employ using the 2:1 ratio mentioned above. Then divide total wages paid in a year by the number of FTEs to get the average wage. If the number is below \$50,000, the employer meets the average wage criteria.<sup>4</sup>

To assist small employers in determining if they qualify for the tax credit, the IRS has developed a “3 Simple Steps” worksheet available at [http://www.irs.gov/pub/irs-utl/3\\_simple\\_steps.pdf](http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf)

## Maximizing the Tax Credit

A final benefit of the tax credit is that it works on a sliding scale: the smaller the business, the larger the potential credit. The fewer FTEs an organization employs or the lower the average wage, the larger the credit it may be eligible to receive. The maximum credit (35 percent in 2013; 50 percent in 2014) goes to businesses that employ fewer than 10 FTEs with annual wages of \$25,000 or less,<sup>5</sup> offering significant savings to small employers taking advantage of these credits.

## How Your Time and Attendance System Can Help

Surprisingly, a time and attendance system can be a valuable tool in determining PPACA employer status and tax credit eligibility. If your time and attendance system offers reporting, your eligibility may be a few short reports away.

If choosing or utilizing a time and attendance system for PPACA-related activities, an organization will find the following characteristics helpful:

**PPACA-focused features.** The best way to ensure PPACA compliance or tax credit eligibility is to employ a time and attendance system with features specifically designed to address PPACA provisions such as:

- **Hour history summaries.** Features that summarize and count hours for full-time and full-time equivalent employees according to the PPACA help organizations quickly and easily determine if they meet either the large employer criteria or the tax credit criteria during a specified time period. Automated full-time and FTE employee counts are particularly significant as they reduce human error and allow for adjustment by time period.
- **Employee average weekly and monthly hours.** Organizations that need a deep dive into employee hours will benefit from a summary of average weekly or monthly service hours for the selected time period.
- **Service hour designations.** According to PPACA, service hours include both worked time and paid non-work time such as vacation, holiday time, sick time, etc. Systems built with these pay designations make assigning and calculating service hours more straightforward.



**Reporting functionality.** A time and attendance system that offers both predefined and customized reports offers necessary flexibility to organizations tracking and analyzing payroll data for PPACA reasons or to optimize labor management.

**Easy configuration.** Updates to an existing time and attendance system, such as adding PPACA-related features, are most easily configured through new software settings applied by the attendance vendor, not by custom programming, saving organizations that employ the system the headache of managing such updates internally.

**Web-based service.** The best way to ensure trouble-free updates and configuration is to employ a web-based time and attendance service. Not only does this allow for automatic vendor updates, but it has the added benefit of not requiring a significant investment in hardware, software or licensing fees. It also increases the flexibility of the system so as an organization grows (potentially from a tax-credit eligible business to a PPACA-designated applicable large employer), the system is easily scaled to meet the changing needs of the company.

## Conclusion

To encourage more businesses, regardless of size, to provide health coverage to their employees, the PPACA offers tax credits that many small businesses may find advantageous. Small employers looking to determine their eligibility can employ a time and attendance system to simplify the process and take advantage of the first-of-its-kind tax credit opportunity PPACA provisions present.

**This document simplifies a complex Act as it is understood by Attendance on Demand, Inc. It is not to be taken as legal advice. For further information about PPACA, please contact the U.S. Department of Labor at [www.dol.gov](http://www.dol.gov) or 1-866-4-USA-DOL.**

## References

- <sup>1</sup> eHealth. "Small Employer Health Insurance Survey: March 2012." Accessed 25 Feb 2013. [http://news.ehealthinsurance.com/pr/ehi/document/Final\\_SmallBusinessSurvey\\_Fall12\\_comp05.pdf](http://news.ehealthinsurance.com/pr/ehi/document/Final_SmallBusinessSurvey_Fall12_comp05.pdf)
- <sup>2</sup> IRS. "Determining Full-Time Employees for Purposes of Shared Responsibility for Employers Regarding Health Coverage: Notice 2012-58." Aug 2012. Accessed 24 Feb 2013. <http://www.irs.gov/pub/irs-drop/n-12-58.pdf>
- <sup>3</sup> IRS. "Small Business Health Care Tax Credit for Small Employers." Last updated 26 Sep 2012. Accessed 3 Mar 2013. <http://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit-for-Small-Employers>
- <sup>4</sup> Ibid.
- <sup>5</sup> Murray, Jean. "How the New Health Care Law (PPACA) Will Affect Your Business." Accessed 5 Mar 2013. <http://biztaxlaw.about.com/od/healthcarebusinessstax/tp/healthcareplanlist.htm>

## About Attendance on Demand, Inc.

Attendance on Demand employee time and attendance service supports the labor management needs of thousands of companies and more than a half million employees across North America. Launched in 2006, Attendance on Demand is a rapidly deployed, cloud-based solution that minimizes a company's risk and technology investment while providing advanced features for securely managing labor data—calculating pay rules, scheduling employees, budgeting labor, and automating record keeping for labor law compliance. With standard uptime over the industry average of 99.995% and above average customer retention rates, Attendance on Demand removes the worry of maintaining expensive infrastructure. An extensive North American distribution network helps organizations use Attendance on Demand to reduce labor expenses and improve decision making.



To find out how Attendance on Demand can help your organization, call 800-465-9980 or visit [www.attendanceondemand.com](http://www.attendanceondemand.com)