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## Employers

The sequester will affect the calculation of the small business health care credit that's refundable to qualifying tax-exempt employers.

**Isaac M. O'Bannon** • Mar. 26, 2013

It has generally been assumed that the sequester, the mandatory cuts to federal government programs that went into effect earlier this month, would have no impact on Internal Revenue Code provisions. However, the [Internal Revenue Service's](#) website says that the sequester will indeed affect the calculation of the small business health care credit that's refundable to qualifying *tax-exempt* employers.

### The Small Business Health Care Credit

According to research and analysis by Thomson Reuters, the Patient Protection and Affordable Care Act, which went into effect starting for tax years beginning after Dec. 31, 2009, allows eligible small employers to claim a credit on Form 8941 (Credit for Small Employer Health Insurance Premiums), equal to a percentage of nonelective contributions for health insurance for its employees. According to Code Sec. 45R, that amount is 35% in tax years 2010 to 2013, and 50% in tax years beginning after 2013.

An "eligible small employer" is generally an organization with no more than 25 full-time equivalent employees employed during its tax year, and whose employees have average annual wages of no more than \$50,000. However, the full credit is available only to an employer with 10 or fewer FTEs and whose employees have average annual full-time equivalent wages from the employer of not more than \$25,000.

Eligible tax-exempt employers also may benefit from the credit. For them, the credit is a refundable tax credit limited to the amount of the employer's payroll taxes

(income tax and Medicare tax withheld from employees' wages and the employer

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The IRS has said that sequester-reduced rate will be applied until the end of the fiscal year (Sept. 30, 2013) or intervening Congressional action, at which time the sequestration rate is subject to change.

“This does not impact all small employers. It only impacts small *tax-exempt* employers,” said Robin Christian, senior tax analyst at Thomson Reuters. “These employers should complete Form 8941 showing the full amount of the credit (unreduced by the sequestration amount). There’s nothing else they need to do other than understand the refund will be 8.7% less than expected.”

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