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Health Insurance Tax Credit for Community Associations

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Overview

There is a health insurance tax credit that is available for small businesses and community associations are included. The credit is a non-refundable tax credit that is available to offset any federal corporate income taxes your association is paying. Non-refundable credit means that you can only reduce your taxes to zero and cannot go beyond that to a refund. It can be carried forward to future years. The tax credit is a hefty 35% of the premiums you are paying for your employees. The catch is that the credit is phased out for employees that make over \$25,000 a year on a full time basis. It is pro-rated from \$25,001 to \$50,000. At \$50,000 the credit is zero. If you have more than 10 employees the credit starts to be reduced and at 25 or more employees the credit is again zero.

More details

There is an additional issue for community associations. They may be considered not for profit even though they don't qualify as a true not for profit under the federal tax code. If they are considered not for profit then the credit is not 35% but 25%. The law is really not clear on this. The IRS form that helps you calculate the credit is Form 8941 and can be used on calendar 2010 and any fiscal or calendar year ending in 2011.

Ideal Candidate Associations

The Associations that are candidates for the credit are as follows:

1. Ones that pay the health insurance or the union health insurance for employees.

2. Has employees that average substantially less than \$50,000 full time, (the part timers are figured into full time equivalents).
3. Ideally have less than 10 employees or at least not too many more.
4. Pay corporate income taxes or can see the potential for paying in the future.

Example

Honest Abe condominium association pays \$15,560 for the health insurance benefits, (including the union employees), of it's employees. There are 11 employees, 9 full-time and 2 half time,(20 hours a week). The average pay of the employees on a full time equivalent basis is \$35,000. The credit is calculated as follows:

Total premiums paid	<u>\$15,560</u>
Credit at 35%	5,446
Number of employees	100% (Since there were only 10 full time equivalent the credit is not reduced, if there were 11 it would be reduced.)
Average wages	35,000
(Reduction of credit for wages over \$25,000)	40% reduction

So the calculation is as follows:	Original credit before reduction	\$5,446
	Reduction based on number of employees	0
	Reduction for wages of \$35,000	<u>(2,178)</u>
	Net credit remaining to be used	<u>\$3,268</u>

Please ask your tax preparer if this fits your Association's situation.