

January 30, 2012

Dear Brothers and Sisters:

Many churches went through the process to collect a refund from the IRS last year based on the health reform law's "credit for small employer health insurance premiums". The credit is available again this year, and I hope you will file and secure unexpected resources for your local church.

A credit of 25% of premium paid in 2011 (capped by the amount of payroll taxes withheld or paid) is available to local churches if claimed by the deadline of May 15, 2012. The credit is available through the 2017 tax year. Churches with 10 or fewer employees can claim the full credit; those between 11-25 employees can claim a reduced amount of credit. Churches with an average wage of \$25,000 per FTE can claim the full credit; there is a partial credit up to salaries of \$50,000 per FTE.

You are required to file two forms, a FORM 8941 "Credit for small employer health insurance premiums" and a FORM 990-T "Exempt Organization Business Income tax Return." You do not need to complete a FORM 990; a tax report required of all non-profits that are not churches.

The credit is taken against Medicare taxes paid by the local church and Medicare taxes and Federal Income taxes withheld from paychecks for any local church employee, regardless of that employees enrollment in the health insurance program. Namely, even though you do not withhold payroll taxes for your pastor you are able to claim the credit against payroll tax obligations of other employees (even those not in the health plan). If an employee is willing to increase the withholding for Federal Income taxes (which does not impact the amount of tax owed), then the local church has a larger basis from which to claim the credit. I've enclosed directions for completing the two forms for a typical local church in our conference. Churches with complex relationships with other organizations should not use these directions and should turn to the resources available through the IRS.

Last year several local churches were asked to verify their information before the tax credit was mailed. As a discouragement to fraud, the IRS is following-up with several organizations that did not previously file a Form 990. Save a copy of what you send in to claim the credit – because the follow-up form mostly asks for the same information. If the IRS contacts you and requests a Form 4564 you have been selected for the follow-up. I have detailed directions for that form and you should contact me at smcphail@flumc.org to secure necessary documents. Don't be discouraged by this request. It is only a formality.

For local churches sharing a pastoral appointment and sharing in the costs of health insurance for that pastor, you may each file for the tax credit, or one church can file and share the refund with the other church. Likely, you will find that each church filing on their own will generate the larger refund – if both churches withhold income taxes on another employee. This will need to be another negotiated responsibility for you and your partners.

Information on the IRS website:

Form 8941 – including a PDF where you can type in the information for printing and mailing.

Directions for Form 8941

Notice 2010-82 Clarifies how some rules apply to local churches in regards to the credit

Form 990-T – including a PDF where you can type in the information for printing and mailing.

Directions for Form 990-T

On the general board of pensions and health website: www.gbophb.org

Go to the Health Care Reform link on the main page. There you will find several articles, including:

“Small Business Tax Credit and the United Methodist Church” – denominations official directions.

Grace and Peace,

Sondra McPhail
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