

There are four sections to this credit---hey, no one said it was going to be easy--- each one is necessary to ensure you get the full credit you deserve.

Section 1: Calculating the number of employees you have

This seems like it would be a no-brainer, but the IRS wants the credit to be calculated as if you only had full time employees, so you have to take all the hours worked by all of your employees, both full- and part-time, and come up with a number that represents a group of pretend employees that are only full-time workers.

Step 1: List all of your employees, and the number of hours they work in a year's time (weekly hours times 52 weeks), not to exceed 2080 hours.

For example, Jill Smith is the financial secretary, and she works 30 hours a week.
 $30 \text{ hrs.} \times 52 \text{ weeks} = 1,560 \text{ hours.}$

Pastor Pete works 50 hours in a typical week, but full time is defined by the IRS as 40 hours, so you would put his total hours down as: $40 \times 52 = 2,080 \text{ hours.}$

Custodian Claude was hired in July, and he works 20 hours a week, so his hours would be: $20 \text{ hrs} \times 26 \text{ weeks} = 520 \text{ hours}$

The church secretary Martha works 40 hours a week, but missed three weeks of work without pay because of a cross country mule trip she took with her husband. Her total hours would be calculated as: $40 \times 49 \text{ weeks} = 1960 \text{ hours.}$ Note that paid vacation would have been considered the same as if she had worked; only take off weeks where the employee does not get paid for absences.

So your step one would look like this:

Employee Name	Total Hours Worked
Jill Smith	1,560
Pastor Pete	2,080
Custodian Claude	520
Martha	1,960
Total hours worked	6,120

Step 2: Calculate your pretend full time workers by dividing the total number of hours worked by the full time hours, 2080.

For our example, you would take the total hours worked, $6,120 \div 2,080 = 2.94$. Forget what you learned in math class; always round down to the nearest whole number, unless you get a number less than one; you would then round up to one. For our example, our number of full time employees is 2.

You're finished with the first part of the credit calculation!!!

Section 2: Calculate your average annual salary

Step 1: Once again, list your employees, but this time list their total amounts received for waged during 2012. The best place to get this information is right off of the W-2s you should have issued at the end of the year.

For our continuing example, the total wages, withholding, and Medicare taxes would have been listed from their W-2s as this:

Employee Name	Total Wages	Withholding Medicare	Taxes Withheld
Jill Smith	\$15,600	468.00	226.20
Pastor Pete	\$50,000	0.00	0.00
Custodian Claude	\$5,200	0.00	75.40
Martha	\$29,400	882.00	426.30
Totals	\$100,200	1350.00	727.90 (multiply by 2)

Step 2: But wait!!! Ministers generally are not subject to employment tax withholding, namely social security and Medicare. If your minister doesn't have these taxes withheld from his paycheck, you don't include his wages in this calculation, even though his health premiums are still part of your credit, and he was considered an employee for the first step. (Don't ask why, the IRS has their reasons) So, for the above example, our total wages are actually:

$$\$100,200 - 50,000 = \$50,200$$

Step 3: Calculate your average annual wage by dividing the total wages as calculated in steps 1 and 2 above, by the total number of pretend full time employees that were calculated in Section 1.

$$\$50,200 \div 2 = \$25,100$$

Just like in Section 1, this answer is rounded down, but this time to the nearest thousand, so our final number would be \$25,000.

Section 3: Calculate your total premiums paid

Step 1: The total premiums paid figure is only the church's portion of the premiums. The church must pay at least 50% of the total cost of the insurance in order to qualify to claim this credit. The insurance must be for medical care, and can also include the cost for dental and vision care. Workman's comp and other supplemental insurances, accidental death and disability insurance, and general liability insurances are not included in this calculation. You don't have to pay the same percentage of insurance for everyone, but it has to be over 50% of the total cost of the insurance in order to qualify for the credit. Generally speaking, your accounting software should reflect how much the church paid as an insurance expense, while the amount that the employees paid would be part of the payroll calculation. To make sure, divide the employer's share of insurance by the total amount paid for insurance; the result will be a percentage, which must be above 50%. Note: even though the Minister's salary was not part of the average annual wage calculation from Section 2, the insurance premiums paid on his behalf are included in the total premiums paid amount.

For our running example, the church paid \$10,200 in insurance premiums on behalf of their employees, which was \$5,100 for our two full time employees. Their total health insurance cost for the year, both employer and employee, was \$17,000.

$$10,200 \div 17,000 = 60\%$$

We meet the requirement of "more than 50%", so we continue to qualify for the credit.

Step 2: Yikes! Another limitation! The government didn't want employers to be overly frivolous with their insurance benefits, so they place a limitation on the amount you could claim as your cost. They spent a lot of energy figuring out what the average cost of insurance for small businesses is in every state, and your expense can't exceed this average. For Florida, the limits are \$5,462 for individual policies, and \$13,013 for family coverage. .

Step 3: Calculate what you would have spent if you had paid the average cost of insurance. Multiply the number of employees by the amount in step 2 that applies - either single or family coverage. For our example, we would multiply 2 (real) employees by \$5,462, and then multiply it by the percentage you calculated above for the employer's share of the health insurance premium:

$$\$5,462 \times 2 = \$10,924 \times 60\% = 6,554.40$$

Section 4: Calculating the Credit on form 8941

Step 1: Download form 8941 from the IRS website, www.irs.gov

Step 2: Don't panic! A lot of the lines don't apply to churches!

Step 3: Fill in the form line by line as so:

our running example

Line 1a: Put in the total number of employees you had in 2012 1a. 4

Line 1b: Leave this field blank; see note below 1b. _____

Line 2: Put in the pretend number that you calculated in Section 1 2. 2

Line 3: Put in the average wages you calculated in Section 2 3. \$25,000

Line 4: Put in the total premiums paid that you calculated in Section 3 4. \$10,200

Line 5: Put in the Florida average premiums you calculated in Section 3 5. \$6,554

Line 6: Put in the smaller number of Line 4 and Line 5 6. \$6,554

Line 7: Multiply the number from line 6 times 25% (.25) 7. \$1,639

This is your credit before any limitations.

Note: Line 1b is used only if you paid another company to do your payroll for you, and they used their EIN to report the wages on from W-2.

Step 4: Ok, so far so good, but here's where it gets complicated. If the number on line 2 is 10 or less, you get the total credit you calculated on Line 7, so you would just put that same number on Line 8. If the number you put on Line 3 is \$25,000 or less, you get the total credit you calculated on Line 7, so you would just put the same number on Line 9. If line 2 is greater than 10, and/or line 3 is greater than \$25,000, there are some limitations that have to be calculated. Let's finish this form first, and talk about the limitations later on.

Step 5: Line 10 deals with state subsidies for insurance premiums paid; if you received something from the state for your employee's health insurance, you'll need to research this line further; this line doesn't apply to most of us. So generally speaking, Line 11 will be the same as line 4, which is the total premiums paid. This brings us to line 12, which should be the same amount as lines 7, 8, and 9.

Step 6: Line 13 wants you to list the number of employees that actually get employer provided health insurance. Line 14 wants you to calculate your full time equivalent employees (FTEs) based on the employees that actually have insurance provided. So, for our example, the number of employees that actually get health insurance is 2, which is entered on line 13. The full time equivalent for these two employees is $2,080 + 1,960 = 4,040 / 2,080 = 1.94$, which you would round down to 1, and enter on Line 14.

Step 7: Skip line 15, and enter the same number on line 16 that was on line 12, then skip lines 17 and 18.

Step 8: Almost there...there is one more limitation you have to consider. On your W-3 you filed for 2012, you listed the total income tax withheld, and the total Medicare taxes withheld. Double the Medicare taxes figure, then add the total to the income tax withheld figure, and write the sum in on line 19. Do not include amounts withheld for Social Security in this calculation; just income tax withholding and Medicare (there is probably a reason why, but that reason was not forthcoming in the instructions!) Your credit is limited to the smaller of this number and the actual credit you calculated and have been faithfully carrying down since line 7. And yes, if you withheld taxes from your minister's salary, it is included in this amount.

Step 9: Put the smaller of line 16 or line 19 on line 20. Phew! That is the amount of credit you qualify to receive!

Are we there yet?

Not quite, because credits have to be claimed on a tax return, not just on the form on which they were calculated. For our purposes, we must use form 990-T, also available at www.irs.gov. But don't worry, this form is much easier to complete than the last one!

Step 1: Download form 990-T from the website. You only need pages one and two.

Step 2: Across the top of the form, write "Request for 45R Credit Only"

Step 3: Fill out your name and address, the same way you fill out your 941 forms. Don't worry about boxes C, E, F, H, and I. UMC churches are 501(c)(3) corporations.

Step 4: The best instructions thus far...skip all of the lines except for 13(a), 34, and 43. On these lines, enter 0.00 (yes, zero.)

Step 5: Enter the amount you calculated on form 8941, line 20 on line 44f, which is halfway down the second page of the 990-T. Carry the same number down to Lines 45, 48, and 49.

Step 6: Sign and date the form, attach the form 8941 to the two pages of the 990-T, and mail it to:

Department of the Treasury
Internal Revenue Service Center.
Ogden, UT 84201-0027

Step 7: Take a deep breath and relax, you're done! Don't be in a hurry; it will take the IRS a while to process this return, so expect your refund in 6 to 8 weeks. The 990-T is normally due in May, if you file after May, your refund may be reduced by a penalty of \$135.00. Make sure you make copies of all of the forms, and keep your computations with the forms in case there is a question later.

Wait! What if I have more than ten pretend employees, or my average salary is over \$25,000?

If your calculation for full time employees is greater than ten but less than 25, and/or your average annual salary is greater than \$25,000 but less than \$50,000, you have to limit your deduction by a fraction. Yes, everyone hates fractions, especially multiplying by them, but hopefully these instructions will help you with the math.

Scenario 1: the full time employee number was greater than 10

1. Subtract 10 from the number of full time employees you calculated _____
2. Divide this number by 15. You should get a decimal _____
3. Multiply this decimal times the amount of the credit you calculated _____
4. Subtract the amount in step 3 from the amount of the credit; this
Becomes the amount of the credit you can actually take _____
5. Enter this number on line 8 of Form 8941.

Scenario 2: the average annual salary is greater than \$25,000

1. Subtract \$25,000 from the amount you calculated as the average
annual salary _____
2. Divide this total by \$25,000. You should get a decimal. _____
3. Multiply this decimal times the amount of the original credit _____
4. Subtract this amount from the total you entered on line 8 (this is
Important if you have already changed the credit due to scenario 1) _____
5. Enter this amount on line 9 of Form 8941

Note: If both of these scenarios apply, you calculate the full time employee limitation first, and then move on to the average annual salary limitation. If only one of them apply, calculate the one limit only.

Congratulations! You did it! You figured the credit with limitations!

Now go back to the form 8941 and finish following all of the steps!