

## Payroll Tax Limitation

The credit for tax-exempt small employers cannot exceed the amount of certain payroll taxes. For tax years beginning in 2010, payroll taxes, for this purpose, means only the following taxes.

- Federal income taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to pay for calendar year 2010.

## Premium Deduction Reduced

Your deduction for the cost of providing health insurance coverage to your employees is reduced by the amount of any credit for small employer health insurance premiums allowed with respect to the coverage. For details, see section 280C(h).

## Additional Information

For more information about this credit, see the following.

- Section 45R.
- Notice 2010-44, 2010-22 I.R.B. 717, available at [www.irs.gov/irb/2010-22\\_IRB/ar12.html](http://www.irs.gov/irb/2010-22_IRB/ar12.html).
- Notice 2010-xx, 2010-xx I.R.B. xxx, available at [www.irs.gov/irb/2010-xx\\_IRB/ar12.html](http://www.irs.gov/irb/2010-xx_IRB/ar12.html).
- IRS.gov.

## Specific Instructions

Worksheets 1 through 7 can help you figure the amounts to report on various lines of Form 8941.

- Use Worksheets 1, 2, and 3 to figure the amounts to report on lines 1 through 3 of Form 8941.
- Use Worksheet 4 to figure the amounts to report on lines 4 and 5 of Form 8941.
- Use Worksheets 5, 6, and 7 if you need to figure amounts to report on lines 8, 9, and 14 of Form 8941.

### Line 1

Enter on line 1 the total number of individuals considered employees shown in column (a) of Worksheet 1. For details, see *Individuals Considered Employees* on page 1.

### Instructions for Worksheet 1

**Column (a).** Enter the name or other identifying information for all individuals considered employees for purposes of this credit. For details, see *Individuals Considered Employees* on page 1.

**Column (b).** Enter the total hours of service for the tax year for all employees listed in column (a). Do not enter more than 2,080 hours for any employee. But enter -0- for seasonal employees who worked 120 or fewer days during the tax year. The information in this column is used to figure your number of full-time equivalent employees on Worksheet 2. For details, see *FTE Limitation* on page 2.

**Column (c).** Enter the total wages paid for the tax year for all employees listed in column (a). But enter -0- for seasonal employees who worked 120 or fewer days during the tax year. The information in this column is used to figure your average annual wages on Worksheet 3. For details, see *Average Annual Wage Limitation* on page 3.

**Note.** Do not complete Worksheet 1, column (c), if Worksheet 2, line 3, is 25 or more.

## Worksheet 1. Information Needed To Complete Line 1 and Worksheets 2 and 3

(a) Individuals Considered Employees	(b) Employee Hours of Service	(c) Employee Wages Paid
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
16.		
17.		
18.		
19.		
20.		
21.		
22.		
23.		
24.		
25.		
If you need more rows, use a separate sheet of paper and include the additional amounts in the totals below.		
<b>Total number of employees:</b>	<b>Total employee hours of service:</b>	<b>Total employee wages paid:</b>
_____	_____	_____

### Line 2

Enter on line 2 the number of full-time equivalent employees shown on line 3 of Worksheet 2. For details, see *FTE Limitation* on page 2.

**Note.** Complete Worksheet 1, columns (a) and (b), before completing Worksheet 2.

## Worksheet 2. Full-Time Equivalent Employees (FTEs)

1. Enter the total employee hours of service from Worksheet 1, column (b) . . . . .	1. _____
2. Hours of service per FTE . . . . .	2. <u>2,080</u>
3. <b>Full-time equivalent employees.</b> Divide line 1 by line 2. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. However, if the result is less than one, enter 1. Report this amount on Form 8941, line 2 . . . . .	3. _____

### Line 3

Enter on line 3 the average annual wages shown on line 3 of Worksheet 3. For details, see *Average Annual Wage Limitation* on page 3.

**Note.** Complete Worksheets 1 and 2 before completing Worksheet 3. **Do not** complete Worksheet 3 if Worksheet 2, line 3, is 25 or more.

## Worksheet 3. Average Annual Wages

1. Enter the total employee wages paid from Worksheet 1, column (c) . . . . .	1. _____
2. Enter FTEs from Worksheet 2, line 3 . . . . .	2. _____
3. <b>Average annual wages.</b> Divide line 1 by line 2. If the result is not a multiple of \$1,000 (\$1,000, \$2,000, \$3,000, etc.), round the result down to the next lowest multiple of \$1,000. Report this amount on Form 8941, line 3 . . . . .	3. _____

### Line 4

Enter on line 4 the total employer premiums paid shown in column (b) of Worksheet 4. For details, see *Employer Premiums Paid* on page 3.

### Line 5

Enter on line 5 the amount shown in column (i) of Worksheet 4. For details, see *Average Premium Limitation* on page 4.

## Instructions for Worksheet 4

**Column (a).** Enter the name or other identifying information for all individuals listed in column (a) of

Worksheet 1 who were enrolled in health insurance coverage you provided to employees during the tax year under a qualifying arrangement. For details, see *Qualifying Arrangement and Health Insurance Coverage* on page 3.

**Column (b).** Enter the total employer premiums paid for the tax year for all employees listed in column (a). For details, see *Employer Premiums Paid* on page 3.

**Column (c).** Enter the total premiums paid for the tax year for all employees listed in column (a). Include both employee and employer paid premiums.

**Column (d).** Divide column (b) by column (c) (round to at least 3 places). Use the result to verify that you paid a uniform percentage of each employees premium during the tax year. The percentage for employees who were enrolled in single coverage must be at least 50% (.5). The percentage for employees who were enrolled in family coverage may be more or less than 50% as long as you paid an amount that was no less than the amount you paid for employees who were enrolled in single coverage. For details, see *Eligible Small Employers* on page 1.

**Column (e).** If the employee listed in column (a) was enrolled in the health insurance plan for the entire tax year, enter the amount from column (c) in column (e). If the employee was not enrolled in the health insurance coverage for the entire tax year, enter the amount of total premiums that would have been paid during the tax year if the employee had been enrolled in the health insurance coverage for the entire tax year.

**Column (f).** Divide Column (c) by Column (e) (round to at least 3 places).

**Column (h).** Enter the amount shown in Table A (see page 4) for the state in which the employee works for all employees listed in column (a). Enter the amount from the single (employee-only) coverage column if the employee was enrolled in single (employee-only) coverage. Enter the amount from the family coverage column if the employee was enrolled in any coverage other than single (employee-only) coverage. For details, see *Average Premium Limitation* on page 4.

**Column (j).** Enter the amount from column (b) of Worksheet 1 for all employees listed in column (a).

**Note.** **Do not** complete Worksheet 4, column (j), if Form 8941, line 12 is zero.

## Worksheet 4. Information Needed To Complete Lines 4 and 5 and Worksheet 7

(a) Enrolled Individuals Considered Employees	(b) Employer Premiums Paid	(c) Total Premiums Paid	(d) Divide Column (b) by Column (c)	(e) Annualized Total Premiums	(f) Divide Column (c) by Column (e)	(g) Multiply Column (d) and Column (f)	(h) Average Annual Premiums (Table A)	(i) Multiply Column (g) and Column (h)	(j) Enrolled Employee Hours of Service
1.									
2.									
3.									
4.									
5.									
6.									

(a) Enrolled Individuals Considered Employees	(b) Employer Premiums Paid	(c) Total Premiums Paid	(d) Divide Column (b) by Column (c)	(e) Annualized Total Premiums	(f) Divide Column (c) by Column (e)	(g) Multiply Column (d) and Column (f)	(h) Average Annual Premiums (Table A)	(i) Multiply Column (g) and Column (h)	(j) Enrolled Employee Hours of Service
7.									
8.									
9.									
10.									
11.									
12.									
13.									
14.									
15.									
16.									
17.									
18.									
19.									
20.									
21.									
22.									
23.									
24.									
25.									

If you need more rows, use a separate sheet of paper and include the additional amounts in the totals below.

<b>Total number of enrolled employees:</b> _____	<b>Total employer premiums paid:</b> _____		<b>Total:</b> _____	<b>Total enrolled employee hours of service:</b> _____
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**Line 8**

If the number of FTEs reported on line 2 is 10 or less, your credit is not reduced by the FTE limitation. Enter on line 8 the amount from line 7. If line 2 is more than 10, enter on line 8 the reduced credit amount shown on Worksheet 5, line 5.

**Worksheet 5. FTE Limitation**

1. Enter the amount from Form 8941, line 7 . . . . .	1. _____
2. Subtract 10 from the number on Form 8941, line 2 . . . . .	2. _____
3. Divide line 2 by 15. Enter the result as a decimal (rounded to at least 3 places) . . . . .	3. _____
4. Multiply line 1 by line 3 . . . . .	4. _____
5. Subtract line 4 from line 1. Report this amount on Form 8941, line 8 . . . . .	5. _____

**Line 9**

If the average annual wages reported on line 3 are \$25,000 or less, your credit is not reduced by the

average annual wage limitation. Enter on line 9 the amount from line 8. If line 3 is more than \$25,000, enter on line 9 the reduced credit amount shown on Worksheet 6, line 5.

**Worksheet 6. Average Annual Wage Limitation**

1. Enter the amount from Form 8941, line 7 . . . . .	1. _____
2. Subtract \$25,000 from the amount on Form 8941, line 3 . . . . .	2. _____
3. Divide line 2 by \$25,000. Enter the result as a decimal (rounded to at least 3 places) . . . . .	3. _____
4. Multiply line 1 by line 3 . . . . .	4. _____
5. Subtract line 4 from Form 8941, line 8. Report this amount on Form 8941, line 9 . . . . .	5. _____

**Line 10**

Enter the total amount of any state premium subsidies paid and any state tax credits available to you for

premiums included on line 4. For details, see *State Premium Subsidy and Tax Credit Limitation* on page 4.

**Line 13**

Enter on line 13 the total number of individuals shown in column (a) of Worksheet 4. These are considered employees for whom you paid premiums during the tax year for health insurance coverage under a qualifying arrangement.

**Line 14**

Enter on line 14 the number of full-time equivalent employees (FTEs) shown on Worksheet 7, line 3. These are FTEs for whom you paid premiums for health insurance coverage under a qualifying arrangement during the tax year.

**Note.** Do not complete Worksheet 7 if Form 8941, line 12, is zero.

**Worksheet 7. FTEs Enrolled in Coverage**

1. Enter the total enrolled employee hours of service from Worksheet 4, column (j) . . . . .	1. _____
2. Hours of service per FTE . . . . .	2. <u>2,080</u>
3. Divide line 1 by line 2. If the result is not a whole number (0, 1, 2, etc.), generally round the result down to the next lowest whole number. However, if the result is less than one, enter 1. Report this amount on Form 8941, line 14 . . . . .	3. _____

**Line 15**

Enter any credit for small employer health insurance premiums from:

- Schedule K-1 (Form 1065), box 15 (code P),
- Schedule K-1 (Form 1120S), box 13 (code P),
- Schedule K-1 (Form 1041), box 13 (code G), and
- Any notice of credit allocation you receive from a cooperative.

**Line 17**

Enter the amount included on line 16 that is from a passive activity. Generally, a passive activity is a trade or business in which you did not materially participate. Rental activities are generally considered passive activities, whether or not you materially participate. For details, see Form 8582-CR, *Passive Activity Credit Limitations* (for individuals, trusts, and estates), or Form 8810, *Corporate Passive Activity Loss and Credit Limitations* (for corporations).

**Line 19**

Enter the passive activity credit for small employer health insurance premiums allowed for 2010 from Form 8582-CR or Form 8810.

**Line 20**

Use line 20 to show any carryback if you amend your 2010 return to carry back an unused credit for small employer health insurance premiums from 2011. You cannot carry this credit back to a tax year beginning before 2010.

**Line 22**

**Cooperatives.** A cooperative described in section 1381(a) must allocate to its patrons the credit in excess of its tax liability. Therefore, to figure the unused amount of the credit allocated to patrons, the cooperative must first figure its tax liability. While any excess is allocated to patrons, any credit recapture applies as if the cooperative had claimed the entire credit.

**Estates and Trusts.** Allocate the credit on line 21 between the estate or trust and the beneficiaries in the same proportion as income was allocated and enter the beneficiaries' share on line 22.

**Line 24**

Enter on line 24 certain payroll taxes. Payroll taxes, for this purpose, means only the following taxes.

- Federal income taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to withhold from employees' wages in calendar year 2010.
- Medicare taxes the tax-exempt employer was required to pay for calendar year 2010.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

**Recordkeeping** .....X hr., XX min.

**Learning about the law or the form**.....X hr., XX min.

**Preparing and sending the form to the IRS**.XX min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.