

Health Care Reform: Small Business Health Care Tax Credit

The new Small Business Health Care Tax Credit is designed to encourage small businesses and tax-exempt organizations to offer health insurance coverage for the first time or maintain the coverage they offer now. The credit is targeted specifically to help those businesses and organizations that employ moderate- and low-income workers.

If you currently provide health insurance coverage for your employees, you may qualify for the tax credit. The credit is available to small employers that pay at least half the cost of single coverage for their employees.

Every situation is different, so you should seek advice from your accountant and attorney, but here are a few things to consider.

Number of employees:

Do you have less than 25 full-time equivalent (FTE) employees?

- Eligibility rules are based in part on the number of FTEs, not the number of employees. Employers that use part-time workers may qualify even if they employ more than 25 individuals. Owners and/or their family members are not counted as employees when calculating the tax credit. If you have more than 25 FTEs, you are not eligible for the tax credit.

Average wages of employees:

Is the annual average wages of your employees less than \$50,000?

- The maximum credit goes to smaller employers (those with 10 or fewer FTEs) paying annual average wages of \$25,000 or less. The credit is phased out for employers with 25 FTEs, paying annual average wages of \$50,000 or more.

Employer-paid insurance premiums:

Do you pay at least 50% of the premiums for single health insurance coverage for your employees?

- For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and 25 percent of premiums paid by eligible

Claiming the credit

Eligible small businesses use Form 8941 to figure the credit and then include the credit amount as part of the general business credit on its income tax return. Tax-exempt organizations use Form 8941 to figure the refundable credit, then claim the credit on Line 44f of Form 990-T. Form 8941

Instructions for Form 8941 can be viewed on the IRS website at www.irs.gov/pub/irs-pdf/i8941.pdf

If you have uninsured employees

If you don't currently offer health insurance coverage to your employees, the new tax credit may make this the time to start. You can still deduct your health insurance premium contribution as an expense, and receive a credit that reduces the tax you owe.

For example, if you qualify for the credit and you pay \$50,000 toward employee health insurance premiums, the combined credit and deduction could reduce your tax bill by almost \$23,000.

Eligibility requirements

Small employers, both for-profit and tax-exempt organizations, may qualify for the credit.

All three of the following criteria must be met:

1. Employer must pay at least 50% of the premiums for single (employee only) health insurance coverage.
2. Employer must have no more than 25 full-time equivalent (FTE) employees (not counting owners or their family members).
3. Average annual wages of qualifying employees must be less than \$50,000 per FTE.

Credit amount

The maximum credit is worth up to 35% of a company's premium costs in 2010 (25% for tax-exempt employers). On January 1, 2014, this rate increases to 50% (35% for tax-exempt employers) and available only to employers who purchase coverage through the Exchange.

The credit gradually phases out for employers with 10 to 25 full-time equivalent employees with average wages between \$25,000 and \$50,000

NOTE:

1. Credit is scheduled to expire in 2015: (available through the 2015 tax year)
2. If you are a small business employer you may be able to carry the credit back or forward. And if you are a tax-exempt employer, you may be eligible for a refundable credit.
3. If the employer contributes more for premiums on behalf of the employee, then the credit amount will be greater (all other things being equal and the employer meets the qualifications).

LEARN MORE:

For additional information about the health care tax credit for small businesses, visit the IRS website at:

<https://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit:-Questions-and-Answers>