

Health Centers and Health Reform



Small Business Health Care Tax Credit

BACKGROUND

For tax years beginning in 2010 through 2013, the Patient Protection and Affordable Care Act allows a tax credit to certain small employers that provide health care coverage to their employees. Under the new law, qualifying small businesses with 25 or fewer full-time-equivalent employees (FTEs) earning less than \$50,000 a year on average will be eligible for a tax credit of 35 percent of health insurance costs. For tax-exempt businesses the maximum credit is 25 percent of the employer's premium expenses.

The Small Business Health Care Tax Credit will help small businesses pay for coverage until the establishment of state health insurance exchanges in 2014. It is not known how long this credit will be available, but it is effective with the tax year beginning in 2010. IRS guidance regarding the small business health care tax credit is forthcoming; look forward to receiving more information soon!

KEY ELEMENTS

Eligibility

- Must provide health care coverage: qualifying employers must cover at least 50 percent of the cost of health care coverage for some of its workers based on coverage for the single employee rate.
- Maximum business size: qualifying employers must have less than the equivalent of 25 full-time workers.
- Average annual wages: qualifying employers must pay average wages below \$50,000 per employee.

Amount of Tax Credit

- For taxable businesses, the credit is worth up to 35 percent of a small business' premium cost in 2010.
- For tax-exempt businesses, the credit is worth up to 25 percent of the small business' premium cost in 2010. This is a refundable credit, so the business may receive a refund [as long as it does not exceed the total amount of income tax and Medicare tax (both employee and employer share)].

Note: All key elements are per IRS current regulations

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HELPFUL LINKS

White House.gov Fact Sheet

<http://www.whitehouse.gov/the-press-office/fact-sheet-small-business-health-care-tax-credit>

IRS Overview and FAQs

<http://www.irs.gov/newsroom/article/0,,id=220839,00.html>

<http://www.irs.gov/newsroom/article/0,,id=220809,00.html?portlet=6>

Center for American Progress Interactive Calculator

http://www.americanprogress.org/issues/2010/04/small_business_health_calculator.html