

## Small Business Health Care Tax Credit

Health reform legislation signed by President Obama includes a Small Business Health Care Tax Credit to help small businesses afford the cost of covering their workers.

### Key Facts about the Small Business Health Care Tax Credit

- The tax credit, which is effective immediately, can cover up to 35 percent of the premiums a small business pays to cover its workers. In 2014, the rate will increase to 50 percent.
- The Congressional Budget Office estimates that the tax credit will save small businesses \$40 billion by 2019.
- Both small for-profit businesses and small not-for-profit organizations are eligible.

### Key Elements

- **Available Immediately.** The credit is effective January 1, 2010. As a result, small businesses that provide health care for their workers will receive immediate help with their premium costs, and additional firms that initiate coverage this year will get a tax cut as well.
- **Broad Eligibility.** The Council of Economic Advisors estimates that 4 million small businesses are eligible for the credit if they provide health care to their workers. Qualifying firms must have less than the equivalent of 25 full-time workers (e.g., a firm with fewer than 50 half-time workers would be eligible), pay average annual wages below \$50,000, and cover at least 50 percent of the cost of health care coverage for their workers.
- **Substantial Benefit.** The credit is worth up to 35 percent of a small business's premium costs in 2010. On January 1, 2014, this rate increases to 50 percent.
- **Non-Profits Eligible.** Tax-exempt organizations are eligible for a 25 percent tax credit in 2010. In 2014, this rate increases to 35 percent. (The credit rates are lower for non-profits to ensure that the value of the credit is approximately equal to that provided to for-profit firms that cannot claim a tax deduction for the amount of the credit claimed.)
- **Gradual Phase-Outs.** The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.
- **Premium Cost Eligibility.** To avoid an incentive to choose a high-cost plan, an employer's eligible contribution is limited to the average cost of health insurance in that state.

## **Q & A**

**Q: What is the small business tax credit and how do I know if I am eligible?**

**A: Effective January 1, 2010, tax credits are available to qualifying small businesses that offer health insurance to their employees. So if your business qualifies for a tax credit, you are eligible right now.**

- About 4 million small businesses will be eligible to receive tax credits if they provide insurance.
- The tax credit is worth up to 35 percent of the premiums your business pays to cover its workers -- 25 percent for nonprofit firms. In 2014, the value of the credit will increase to 50 percent -- 35 percent for nonprofits.
- Your business qualifies for the credit if you cover at least 50 percent of the cost of health care coverage for your workers, pay average annual wages below \$50,000, and have less than the **equivalent** of 25 full-time workers (for example, a firm with fewer than 50 half-time workers would be eligible).
- The size of the credit depends on your average wages and the number of employees you have. The full credit is available to firms with average wages below \$25,000 and less than 10 full-time equivalent workers. It phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

**Q: What if my small business doesn't offer insurance today, but I choose to start offering insurance this year. Will I be eligible for these tax credits?**

**A: Yes.**

- The tax credit is designed to both support those small businesses that provide coverage today as well as those that newly offer such coverage.