



Health Care Reform Provides Tax Credits to Certain Small Businesses That Offer Health Insurance

New laws will provide much-needed relief to small businesses across the country through tax credits.

If you already offer health coverage to your employees you may apply for a credit to offset the cost of premiums. If you don't currently offer health insurance you may now be able to afford it. Either way, now is a great time to try to take advantage of these tax credits. You can qualify for credits immediately! Check with your tax advisor for the specifics on how this will affect your business.

Eligible Employers:

- Have fewer than 25 employees.
- Pay average annual wages of less than \$50,000.
- Contribute at least 50% of the total health care insurance premium cost for each enrolled employee.* (Remember to save your premium payment records.)

Do You Have 25 or More Employees?

Eligibility rules are based in part on the number of full-time equivalent (FTE) employees, not the total number of employees, so businesses that use part-time help may qualify even if they employ 25 or more individuals.

*Based on single coverage only. When an employee has family coverage, the requirement is met if the employer pays at least 50 percent of what single coverage would cost for that employee.

Health Care Reform Tax Credits Are Effective in Two Phases

PHASE 1: 2010-2013

Tax-Exempt Small Businesses

Full credit equals 25% of the lesser of the employer's contribution to health insurance or the amount employer would have contributed had they given the same uniform package based on the average premium for the small-group market in each state or geographic region.

Non-Tax-Exempt Small Businesses

Full credit equals 35% of the lesser of the employer's contribution to health insurance or the amount employer would have contributed had they given the same uniform package based on the average premium for the small-group market in each state or geographic region.

PHASE 2: 2014 and later (credits limited to two consecutive years)

Tax-Exempt Small Businesses

Full credit equals 35% of employer's contribution to health insurance. Further guidance pending.

Non-Tax-Exempt Small Businesses

Full credit equals 50% of employer's contribution to health insurance. Further guidance pending.

Example of Types of Employers Potentially Receiving the Credit (Courtesy of IRS.gov)

Tax credits are calculated based on premiums, employer contributions, and tax liability. Not every employer will qualify and not all that qualify will be eligible for the full credit. Your tax advisor can provide any needed tax advice.

Example – Determining amount of premium payments for purposes of the credit

- For the taxable year, an eligible small employer offers a health insurance plan with single and family coverage.
- The employer has nine full-time equivalent (FTE) employees with average annual wages of \$23,000 per FTE.
- Four employees are enrolled in single coverage and five are enrolled in family coverage.
- The employer pays 50% of the premiums for all employees enrolled in single coverage and 50% of the premiums for employees enrolled in family coverage (and the employee is responsible for the remainder in each case).
- The premiums are \$4,000 a year for single coverage and \$10,000 a year for family coverage. The average premium for the small-group market in the employer's state is \$5,000 for single coverage and \$12,000 for family coverage.
- The employer's premium payments for each FTE (\$2,000 for single coverage and \$5,000 for family coverage) does not exceed 50% of the average premium for the small-group market in the employer's state (\$2,500 for single coverage and \$6,000 for family coverage).
- Thus, the amount of the premiums paid by the employer for purposes of computing the credit is \$33,000 ([4 x \$2,000] plus [5 x \$5,000]).

Three Simple Steps

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the Small Business Health Care Tax Credit by following these three simple steps.

Step 1. Determine the total number of your employees (not counting owners or family members):

Full-time employees: (Enter the number of employees who work at least 40 hours per week.)

+ Full-time equivalent of part-time employees: (Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)

= total employees. If the total number of employees is fewer than 25, GO TO STEP 2.

Step 2. Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees:

÷ Divide it by the number of employees from step 1: (Total wages ÷ number of employees.)

= wages.

If the result is less than \$50,000, AND:

Step 3. You uniformly pay at least half the insurance premiums for your employees at the single (employee-only) coverage rate, then you may be able to claim the Small Business Health Care Tax Credit.