

Small Business Health Care Tax Credit

U.S. Treasury Department Office of Public Affairs

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New Guidance Gives Small Employers Full Set of Tools to Claim Credit for 2010;

Credit Covers Up To 35 Percent of Small Employers' Health Care Contributions

Today, many small businesses across America struggle to provide health benefits to their employees. On average, small businesses pay about 18 percent more than large businesses for the same health insurance policy. The Affordable Care Act helps level the playing field by lowering costs for small businesses and increasing their bargaining power. At the same time, small business owners will have the flexibility to make choices they believe are right for their business and their employees. Starting in 2014, firms with up to 100 workers can pool their buying power and reduce administrative costs by purchasing insurance through a health insurance exchange. And the Congressional Budget Office predicts that, thanks to the Affordable Care Act, premiums in the small group insurance market will decrease 1 to 4 percent by 2016.

To make health insurance more affordable for small businesses, the new law also includes tax credits for many small businesses that offer coverage to their workers. Starting in 2010, small businesses that have fewer than 25 employees, pay average annual wages below \$50,000, and pay for most of their employees' health coverage may qualify for a tax credit of up to 35 percent of health expenses. The Congressional Budget Office estimates that the tax credit will save small businesses \$40 billion by 2019. Both for-profit and nonprofit organizations may qualify for the tax credit.

The tax credit is already having a substantial impact. Insurance companies have used the tax credit to encourage more businesses to provide benefits. Blue Cross and Blue Shield of Kansas City has promoted the tax credit and enrolled more than 9,000 new members covered by 400 new employers; 38 percent of those new employers did not previously offer insurance.

Today, the Obama Administration is releasing new guidance that will make it easier for small businesses to claim this tax credit.

Key Facts about the New Guidance:

Addresses small business questions about which firms qualify by clarifying that a broad range of employers meet the eligibility requirements, including:

Employers that pay for a portion of their employees' health care costs through a broad range of contribution arrangements.

Religious institutions that provide coverage through denominational organizations;

Certain small employers that cover their workers through multiemployer health and welfare plans; and

Includes the one-page form (Form 8941) and instructions used to claim the credit for tax year 2010 - both are now available at www.irs.gov.

Facts About the New Guidance

- Gives Small Employers Full Set of Tools to Claim Credit for 2010. The new guidance includes all the tools small businesses need to claim the credit when they file their 2010 taxes, including the one-page form (Form 8941) and instructions used to claim the credit for tax year 2010, as well as the remaining guidance for 2010. All of this information is now available at www.irs.gov.
- Clarifies that Religious Institutions Qualify. Due to their special status under other law, religious institutions that obtain coverage through a denominational organization that self-insures the coverage can qualify for the credit, even though the coverage is not fully insured - a requirement for most employers. The guidance makes clear that this rule applies solely for purposes of eligibility for the small business tax credit.
- Explains "Qualifying Arrangement" - Wide Range of Employers Qualify. Following up on previous guidance issued by the Treasury Department that provided transition relief to help businesses claim the credit for 2010, the new guidance clarifies that a broad range of common arrangements used by employers to subsidize insurance coverage for their workers will qualify for the credit for tax years 2010 to 2013. For example, firms that pay more to help older workers cover the higher premiums and firms that allow employees a choice of coverage, may both qualify for the credit. For tax year 2010, small employers have the flexibility to use the transition relief set forth in the earlier guidance or to take advantage of the rules in the new guidance.
- Clarifies that Certain Employers Contributing to Multiemployer Health and Welfare Plans Qualify. The guidance provides that a small employer that makes contributions to a multiemployer plan that are used to pay premiums for employee health insurance coverage may qualify for the credit, so long as 100 percent of the cost of coverage for all employees covered by the multiemployer plan is paid from employer contributions and not by employees.

Getting the Word Out to Small Businesses

To ensure that small businesses know about the credit and how to claim it, the Administration has undertaken a nationwide educational campaign to reach small employers and their tax preparers.

Web Features. WhiteHouse.Gov, HealthCare.Gov, and IRS.Gov all feature special sections on the credit, including tax tips, detailed frequently asked questions and a worksheet to help small business owners determine whether they qualify.

Millions of Postcards to Small Businesses: The IRS has sent out over 4 million postcards to employers that may qualify for the credit.

Over 1,000 Tax Workshops and Small Business Forums. Every year, tens of thousands of small businesses and tax professionals around the country attend Small Business Forums and Tax Workshops to learn about new developments in tax law. This year, IRS outreach has had a special focus on the small business credit, featuring it at over 1,000 events.

Email Blasts to Thousands of Tax Professionals and Small Businesses. IRS is getting the word out through its IRS e-News for Tax Professionals and e-News for Small Businesses. Each newsletter reaches over 175,000 tax professionals and small business owners.

Facts About the Small Business Health Care Tax Credit:

Available Immediately. Enacted as part of the Affordable Care Act, the credit was effective January 1, 2010. As a result, small businesses currently providing health care for their workers receive immediate help with their premium costs.

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.

Substantial Benefit. The credit is worth up to 35 percent of a small business's premium costs in 2010 and in each of 2011, 2012, and 2013. In 2014, this rate increases to 50 percent.

Firms Can Claim Credit for Up to 6 Years. Firms can claim the credit for 2010 through 2013 and for any two years after that.

Non-Profits Eligible. Tax-exempt organizations are eligible for a 25 percent tax credit in 2010 and in each of 2011, 2012, and 2013. In 2014, this rate increases to 35 percent. **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 for small businesses in that state. **No Reduction Due to State Credits.** The credit is not reduced if an employer also receives a state health care tax credit or subsidy (except in limited circumstances to prevent abuse of the credit). In particular, an employer that receives such a state tax credit or subsidy also receives the full federal credit based on its entire contribution so long as the federal credit does not exceed the employer's net contribution. According to lists compiled by the National Conference of State Legislatures, about 20 states offer these benefits.

- **Dental and Vision Coverage Qualify.** Small businesses can receive the credit not only for traditional health insurance coverage but also for add-on dental, vision, and other limited-scope coverage.
- **Employers Can Choose the Most Favorable Method of Determining Hours Worked.** Because the tax credit's matching rate is highest for employers with 10 or fewer full-time equivalent employees (FTEs), the number of hours worked is an important factor in calculating the credit. Employers can choose among three different methods of determining hours to minimize their bookkeeping duties while receiving the maximum tax credit for which they are eligible. Employers can look at actual hours of service, or can use simple rules of convenience to estimate hours based on total days or weeks of service.

The Small Business Health Care Tax Credit: Four Cases

Example 1: Auto Repair Shop with 10 Employees Gets \$24,500 Credit for 2010

Main Street Mechanic:

- Employees: 10
- Wages: \$250,000 total, or \$25,000 per worker
- Employer Health Care Costs: \$70,000

2010 Tax Credit: \$24,500 (35% credit)

2014 Tax Credit: \$35,000 (50% credit)

Example 2: Restaurant with 40 Part-Time Employees Gets \$28,000 Credit for 2010

Downtown Diner:

- Employees: 40 half-time employees (the equivalent of 20 full-time workers)
- Wages: \$500,000 total, or \$25,000 per full-time equivalent worker
- Employer Health Care Costs: \$240,000

2010 Tax Credit: \$28,000 (35% credit with phase-out)

2014 Tax Credit: \$40,000 (50% credit with phase-out)

Example 3: Foster Care Non-Profit with 9 Employees Gets \$18,000 Credit for 2010

First Street Family Services.org:

- Employees: 9
- Wages: \$198,000 total, or \$22,000 per worker
- Employer Health Care Costs: \$72,000

2010 Tax Credit: \$18,000 (25% credit)

2014 Tax Credit: \$25,200 (35% credit)

Example 4: Manufacturing Company with 12 Employees Gets \$14,700 Credit for 2010

Acme Air Conditioning, LLC:

- Employees: 12
- Wages: \$420,000 total, or \$35,000 per worker
- Employer Health Care Costs: \$90,000

2010 Tax Credit: \$14,700 (35% credit with phase-out)

2014 Tax Credit: \$21,000 (50% credit with phase-out)