

## Small Business Health Care Tax Credit

### Tax credits can be an easy way to reduce health care costs

Lawmakers included the Small Business Health Care Tax Credit in the health care law to make coverage more affordable. The credit is specifically designed to encourage small businesses and small tax-exempt organizations that employ low-income to moderate-income employees to either maintain existing coverage or offer health insurance to their employees for the first time.

### Who is eligible for the tax credit?

Small and tax-exempt employers that provide health care coverage to their employees are eligible for the Small Business Health Care Tax Credit if:

- They employ fewer than 25 full-time employees (FTEs).\*
- Annual average earnings wage per employee is less than \$50,000 per year.\*\*
- They pay at least 50 percent or more of employees' premium cost for health insurance coverage.\*\*\*

*\*FTEs are calculated by dividing the total hours worked by all employees during the tax year by 2,080.*

*\*\*This is calculated by dividing the aggregate amount of wages paid to the employees during the year by the number of FTEs and then rounding to the nearest \$1,000.*

*\*\*\*In determining hours and wages, sole proprietors, partners in a partnership, shareholders owning more than 2 percent of an S corporation and any owners of more than 5 percent of other businesses are disregarded, as are their family members. Similarly, seasonal workers are disregarded unless they work for the employer more than 120 days during the taxable year, though premiums paid for seasonal workers may still be taken into account.*

### How big is the tax credit?

There is a sliding-scale tax credit of up to 35 percent of the employer's eligible premium expenses for tax years 2010–2013 that increases to a maximum of 50 percent in 2014.

- Employers with 10 or fewer full-time employees, paying annual average wages of \$25,000 or less, qualify for the maximum credit of 35 percent.
- For tax-exempt employers, the maximum tax credit is 25 percent of eligible premium expenses for tax years 2010–2013, increasing to 35 percent in 2014.
- Beginning in 2014 coverage must be purchased from Covered California to qualify for a tax credit.

### How to claim the tax credit

Small employers, whether businesses or tax-exempt organizations, can claim the Small Business Health Care Tax Credit as part of the general business credit starting with the 2010 income tax return. Small businesses can calculate the credit with the new **IRS Form 8941**, Credit for Small Employer Health Insurance Premiums, and tax exempt employers can calculate the refund with **IRS Form 990-T**, Exempt Organization Business Income Tax Return. Both are available at [www.IRS.gov/sbhtc](http://www.IRS.gov/sbhtc).

### When to claim the credit

Small businesses can claim the credit now starting with their 2010 income tax return. Those that have already filed a tax return and later determine they are eligible for the credit may file an amended tax return. In fact, employers can potentially claim the credit for a total of six years: the initial credit available from 2010 through 2013 plus two consecutive years beginning in 2014.

### Help for the self-employed

Although self-employed individuals are not eligible for the Small Business Health Care Tax Credit, they will be eligible for the same tax credits and subsidies available to other individuals and families purchasing coverage through Covered California's Individual Exchange.