

Small Business Health Care Tax Credit

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One of the provisions of the Affordable Care Act, signed into law by President Obama in March, provides certain small businesses and tax-exempt organizations with a health care tax credit. This tax credit is intended to encourage small employers to offer health insurance coverage to their lower income employees. The credit is effective for 2010 and, generally, applies to small businesses and tax-exempt organizations that pay for at least 50 percent of single health insurance coverage for their employees.

For 2010 through 2013, eligible small business employers can receive a maximum credit of 35 percent of the premiums that it pays and tax-exempt organizations can receive a maximum credit of 25 percent. Eligible small business employers and small tax-exempt employers are defined as those with 10 or fewer full-time equivalent (FTE) employees where the employer pays annual average wages of \$25,000 or less. Businesses with more than 10 FTE employees or who pay more than an annual average of \$25,000 in wages can still qualify for part of the credit as long as they do not have more than 25 FTE employees or pay more than \$50,000 in annual average wages.

The maximum amount of the credit increases to 50 percent for small business employers and 35 percent for tax-exempt employers beginning on January 1, 2014. The IRS provides the following examples of how the credit works:

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*
- *Employee 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*
- *Employee 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

- Employee Health Care Costs: \$72,000

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

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