

Legislative Alert: PPACA Small Business Tax Credits

Small employers who provide health insurance coverage to their employees may not realize they can claim a federal income tax credit on their 2010 filing, due to the Patient Protection and Affordable Care Act (PPACA). Unfortunately, a very low percentage of qualified business owners are taking advantage of this credit according to recent government reports. Even if companies have completed their 2010 filing, they can still submit an amended filing to request this tax credit.

Eligibility Rules

Small group employers must meet the following guidelines to be eligible for this federal income tax credit¹. The requirements are a combination of three factors related to the business - size of their company, percentage of health care coverage they provide, and total wages paid.

- **Firm size.** First, there are restrictions on the number of employees that an employer may have. A qualifying employer must have **less than the equivalent of 25 full-time workers** when totaling all individuals' hours of employment. When all part-time and full-time hours of employment are combined and divided by a full time 40 hour week, and if the number of employees needed to cover the total hours is less than 25 employees, the employer will qualify for the credit.
- **Provide health care coverage.** Secondly, the employer must confirm that they cover at least 50 percent of the cost of health care coverage for their employees. To determine this, the firm size equivalent number determined above must be used. Next, the employer must know the cost they pay to cover a single full time employee's insurance premium. The employer must then make the following calculation:
 - Equivalent firm size multiplied by (X) the cost paid for an individual premium and divided by (/) two.
 - The above calculation is the percentage of health care coverage that the employer must cover in order to qualify for the credit. Therefore, they do not have to pay full coverage for each employee. They could reach the required premium with some full coverage and some partial coverage of employees.
- **Total Wages Paid.** Finally, there are wage restrictions on the qualifications.
 - Employers with **10 or fewer Full Time Equivalent (FTE) employees**, paying annual average **wages of \$25,000 or less** will receive the maximum credit of 35 percent.
 - Employers with **greater than 10 and fewer than 25 Full Time Equivalent (FTE) employees**, paying annual average **wages of less than \$50,000** will also receive the minimum credit of 35 percent of

- premiums paid.
- **All tax-exempt organizations** that meet either of the above criteria can only claim the minimum credit of 25 percent of premiums paid.

As the IRS states: "The credit is completely phased out for employers that have 25 or more FTEs or that pay average wages of \$50,000 or more per year. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, employers that use part-time workers may qualify even if they employ more than 25 individuals."²

- **Amount of credit and years available.**

As stated by the IRS: "Small businesses can claim the credit for 2010 through 2013 and for any two years after that. For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and 25 percent of premiums paid by eligible tax-exempt organizations. Beginning in 2014, the maximum tax credit will increase to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible tax-exempt organizations."²

- **More information.** Please visit the [FAQ section](#) on the IRS website as there are several examples listed and helpful questions and answers pertaining to different circumstances.

Claiming the Credit

- Small employers, whether businesses or tax-exempt organizations, will use the new [Form 8941, Credit for Small Employer Health Insurance Premiums](#), to calculate the small business health care tax credit.
- For-profit small businesses will include the amount of the credit as part of the general business credit on their income tax returns.
- Tax-exempt organizations will include the amount of the credit on Line 44f of revised Form [990-T, Exempt Organization Business Income Tax Return](#). Form 990-T has been revised for the 2011 filing season to enable eligible tax-exempt organizations, even those that owe no tax on unrelated business income, to claim the small business health care tax credit.

For your interest: In an *Analysis of the Small Business Health Insurance Tax Credit and Effects on Coverage* conducted by the Committee on Small Business Democrats U.S. House of Representatives, a document was created showing the [Impact of Health Care Tax Credit, by State](#). Please take a look at this document, as it pertains to the small group market in each individual state.

In order to make this information easier to communicate to your clients, BenefitMall has provided a client letter explaining the details above – [Small Business Tax Credit](#). Please feel free to add your personal contact information to better utilize this component with your clients.

For further details on this opportunity for your valued customers, please visit the [IRS website](#). Here the IRS provides form 8941 filing instructions, an informational video as well as a useful FAQ. Also, for further assistance with specific questions which cannot be answered in the information or links provided above, please [click here](#) for a state-by-state IRS Taxpayer Assistance guide.