

Health Care Tax Credit Explained for Small Employers

Since the March 2010 passage of the *Patient Protection and Affordable Care Act*, the IRS has released information to help small businesses, including small nonprofits, understand how a provision in the extensive legislation may allow them to claim a tax credit if providing health insurance as an employee benefit. In its recently released Notice 2010-44, the IRS provides guidance on the credit and instructions for claiming it. The tax credit applies to employers with fewer than 25 employees and average wages below \$50,000 per year. To receive the credit, employers must be paying at least half the health insurance premiums for their employees.

The tax credit is scaled based on the small organization's size. The full credit is available for employers with ten or fewer full time employees and average annual wages of \$25,000 or less. The credit decreases as the number of employees and average annual wages rise, phasing out at 25 full-time employees and average wage of \$50,000. The number of employees is calculated based on "full-time equivalent" employees, a number determined by dividing the total working hours for which an employer pays workers (but not more than 2,080 for any individual) by 2,080. Certain seasonal workers are excluded from this calculation if such employees do not work more than 120 days in the year. Business owners are normally excluded as well.

The tax credit will be phased in over two periods with for-profit employers receiving larger credits than nonprofit employers. During the first phase, 2010-2013, the maximum credit for-profit employers may receive is 35%; it is 25% for nonprofit employers. The second phase, beginning in 2014 and going forward will allow a 50% credit to for-profit employers and 35% to nonprofits.

Small business employers may claim the credit on their annual tax return via a Form 8941 *Credit for Small Employer Health Insurance Premiums*. Form 8941 will be used by employers to calculate the amount of available credit and will be submitted with the employer's annual return filed with the IRS. Unused credit amounts may be carried forward as a general business credit for 20 years. While such credits may normally be carried back one year, the carry back will not apply for 2010.

Tax-exempt organizations must claim the credit on a revised Form 990-T. Although groups normally use this form to report business income not related to their exempt purposes, the revised Form 990-T tax return (to be released for the 2011 tax filing season) will be used to claim the credit even if the exempt organization does not owe any tax on unrelated business income. Qualifying tax exempt organizations will claim the credit against certain payroll taxes including Medicare withholding, and the refundable credit may not exceed the payroll taxes withheld.

Further information on the credit may be found at [IRS Notice 2010-44](#) and the [Small Business Health Care Tax Credit: Frequently Asked Questions](#).

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