

## Health Care Tax Credit for Small Businesses

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[Jacklyn D. Olinger](#)

The new health reform law gives a tax credit to eligible small employers that provide health care coverage to their employees, effective with tax years beginning in 2010. In order to qualify as a small employer eligible for the tax credit:

1. the employer must have fewer than 25 full-time equivalent employees ("FTEs");
2. the average annual wages of its employees for the year must be less than \$50,000 per FTE, and;
3. the employer must pay the premiums under a "qualifying arrangement."

Because the limitation on the number of employees is based on FTEs, an employer with 25 or more employees could qualify for the credit if some of its employees work part-time. Average annual wages are calculated by dividing the total wages paid by the number of FTEs and rounding the result down to the nearest \$1,000.

In order to be a "qualifying arrangement", the employer must pay premiums for each employee enrolled in health care coverage offered by the employer in an amount equal to a uniform percentage (not less than 50%) of the premium cost of the coverage. The employer can claim a credit for up to 35% (25% for tax exempt organizations) of the premium costs for 2010 through 2013. In 2014 the maximum credit will increase to 50% (35% for tax exempt organizations) of the employer's premium costs. The credit phases out gradually for businesses with average wages between \$25,000 and \$50,000 and for businesses employing between 10 and 25 FTEs. The credit for businesses at or above these thresholds is reduced based on a formula using the number of FTEs and the average wages paid. The National Federation of Independent Business provides an easy-to-use tax credit calculator which is available on its website at: [www.NFIB.com/creditcalculator](http://www.NFIB.com/creditcalculator).

The credit is further limited in that only that amount of an employer's premium payments that is equal to or less than the average premium for the small group market in the state (or an area within the state) in which the employer offers coverage will count for purposes of the credit. The average premium for each small group market is determined annually by the Department of Health and Human Services. Revenue Ruling 2010-13 sets forth the average premium for the small group market in each state for the 2010 tax year.

An employer claims the credit on the employer's annual income tax return, with an attached Form 8941 showing the calculation of the credit.