

Compliance Alert

Small Business Health Care Tax Credit

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Recently passed health reform legislation includes a tax credit designed to help small business with the cost of health insurance they provide to their employees. Effective for the 2010 tax year, businesses and tax-exempt organizations who qualify could receive a tax credit of up to 35% of the cost of health care coverage for their workers. The IRS has begun sending out postcards to small businesses and tax-exempt organizations to make them aware of a special tax credit they may qualify for.

Overview

To qualify for this tax credit, a small business needs to:

- 1) Pay their employees less than \$50,000 on average. This will be based on total payroll divided by the number of full-time employees
- 2) Cover at least half of the cost of the health care coverage for their workers.
- 3) Have fewer than 25 workers or full-time equivalent (FTE) employees

Businesses that use part-time help may qualify even if they employ more than 25 individuals because the eligibility rules are based in part on FTEs, not the number of employees. (A company with fewer than 50 half-time workers would be eligible).

The credit is worth up to 35 percent of a small business's premium costs (25 percent for tax exempt organizations). On January 1, 2014, this rate increases to 50 percent for small businesses (35 percent for tax exempt organizations). The maximum credit goes to smaller employers-those with 10 or fewer FTE employees with average wages of \$25,000 or less.

Calculating credit amount

The tax credit is calculated based on the employer's premium costs. To be eligible, the contribution is limited to the average cost of health insurance in the employer's state. The US Department of Health and Human Services is calculating those amounts and will be releasing those numbers shortly. The IRS gives this example:

"For the 2010 tax year, a qualified employer has 9 FTEs with average annual wages of \$23,000 per FTE. The employer pays \$72,000 in health care premiums for those employees (which does not exceed the average premium for the small group market in the employer's State) and otherwise meets the requirements for the credit. The credit for 2010 equals \$25,200 (35% x \$72,000)."

Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011. For tax-exempt employers, the IRS will provide further information on how to claim the credit.

The IRS has set up a web page with more detailed information regarding the Small Business Tax Credit at <http://www.irs.gov/newsroom/article/0,,id=220809,00.html>.

For more information contact Benefit Comply, LLC at 612-293-6622 or info@benefitcomply.com

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