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**Health reform legislation provides tax credit  
to small employers who offer health insurance**

Some small businesses and tax-exempt organizations that provide health insurance coverage to their employees may now qualify for a **special tax credit** under the recently enacted health care reform legislation, the *Patient Protection and Affordable Care Act* and *Health Care and Education Reconciliation Act*. The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

**ELIGIBILITY RULES (ALL THREE OF THE FOLLOWING CRITERIA MUST BE MET)**

1. The employer must cover at least 50 percent of health care coverage costs for workers based on the employee only (single) rate; **AND**
2. The employer must have no more than the equivalent of 25 full-time workers (not counting owners or family members); **AND**
3. Employees' average annual wages (not counting owners or family members) must be below \$50,000

**CREDIT AMOUNT**

- The maximum credit is worth **up to** 35 percent of a company's premium costs in 2010 (25 percent for tax-exempt employers).
  - Note that the rate will increase to 50 percent on 01/01/2014 (35 percent for tax-exempt employers) – See Credit Availability
- The **credit gradually phases out** for employers with average wages between \$25,000 and \$50,000, and for employers with the equivalent of between 10 and 25 full-time workers.
  - Full Credit ≤ 10 average annual wages < \$25,000
  - Partial Credit ≤ 25 average annual wages < \$50,000
  - No Credit if more than 25 and/or average annual wages exceed \$50,000

**CREDIT AVAILABILITY**

The credit is initially available for any tax year beginning in 2010, 2011, 2012 or 2013. According to the Internal Revenue Service, eligible small businesses can claim the credit as part of the general business credit. For tax-exempt employers, the IRS will provide further information on how to claim the credit.

For tax years beginning after 2013, the credit is **only available to an eligible small employer that purchases health insurance coverage for its employees through a State Exchange and is only available for two years**. The maximum two year coverage period does not take into account any tax years beginning in years before 2014. Thus, an eligible small employer could potentially qualify for this credit for six tax years, four years under the first phase and two years under the second phase.

## **SPECIAL RULES**

Because the limitation on the number of employees is based on full-time equivalent employees, an employer with 25 or more employees could qualify for the credit if some of its employees work part-time. For example, an employer with 46 half-time employees (meaning they are paid wages for 1,040 hours) has 23 FTEs and therefore may qualify for the credit.

Generally, seasonal workers are disregarded in determining full-time equivalent employees and average annual wages unless the seasonal worker works for the employer on more than 120 days during the tax year.

Self-employed individuals, including partners and sole proprietors, two percent shareholders of an S corporation, and five percent owners of the employer are not treated as employees for purposes of this credit. Any employee with respect to a self-employed individual is not an employee of the employer for purposes of this credit if the employee is not performing services in the trade or business of the employer. Thus, the credit is not available for a domestic employee of a sole proprietor of a business. There is also a special rule to prevent sole proprietorships from receiving the credit for the owner and their family members. Thus, no credit is available for any contribution to the purchase of health insurance for these individuals and the individual is not taken into account in determining the number of full-time equivalent employees or average full-time equivalent wages.

The following links provide more information about the credit, including tax tips, guides and answers to frequently asked questions:

### **Internal Revenue Service**

<http://www.irs.gov/newsroom/article/0,,id=223666,00.html>

<http://www.irs.gov/newsroom/article/0,,id=223577,00.html>

[http://www.irs.gov/pub/irs-utl/3\\_simple\\_steps.pdf](http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf)

**Small Business Majority** – PSI Consultants is not affiliated with Small Business Majority in any way and cannot vouch for the accuracy of their web tool

<http://smallbusinessmajority.org/tax-credit-calculator/>

We hope you find this notice helpful and we will continue to provide you with updates as the federal government releases additional guidance and regulations on health care reform.

**IMPORTANT: PSI Consultants does not offer any tax or legal advice. You are advised to consult your accountant and/or tax attorney before taking action based upon information in this document or from any other source.**