

Small Business Health Care Tax Credit

Many owners of small businesses and tax-exempt organizations will be receiving or already have received postcards from the Internal Revenue Service in an effort to make them aware of the small business health care tax credit which was part of the recently enacted Patient Protection and Affordable Care Act (“PPACA”).

The small business health care tax credit is one of the first pieces of the PPACA to go into effect. The credit takes effect this year and is intended to encourage small employers to offer health insurance coverage to their employees. The credit applies to employers who are offering health insurance coverage for the first time to employees and to employers who already provided health insurance coverage.

In order to be eligible for the health care tax credit, the small employer must pay at least half of the cost of single coverage for their employees. A small business is a business that has less than 25 full-time employees and pays annual average wages of less than \$50,000 per year, per employee. (A qualifying tax-exempt organization is subject to the same employee and wage rules as a for-profit small business.) If a business has part-time employees, they may qualify even if it has more than 25 employees, depending on the hours worked by those employees. The credit begins to phase out for employers with more than ten (10) employees and who pay average wages of more than \$25,000. The credit completely phases out for small businesses that pay average wages of \$50,000 or more per year or have 25 or more full-time employees per year.

For tax year 2010 to 2013, the credit is worth up to 35 percent of the premium costs paid by the small business employer; 25 percent of the premiums paid by eligible employers who are tax-exempt organizations. On January 1, 2014, the amount of the credit becomes 50 percent for small businesses and 35 percent for tax-exempt employers.

The credit will be claimed on the qualifying entity’s tax return. Because this is a credit, even a tax-exempt organization benefits from it in the form of a refund.

If you would like more information on this or other small business tax issues, please do not hesitate to contact me to schedule a consultation at 717-657-7770.

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