

IRS Offers Details on New Small Business Health Care Tax Credit

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Included in the Affordable Care Act approved by Congress in March and signed into law by the President, the small business health care tax credit, which is in effect this year, is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees in 2010. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ moderate- and lower-income workers.

For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. The maximum credit goes to smaller employers — those with 10 or fewer full-time equivalent (FTE) employees — paying annual average wages of \$25,000 or less. The credit is completely phased out for employers that have 25 FTEs or more or that pay average wages of \$50,000 per year or more. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals.

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 organizations, the IRS will provide further information on how to claim the credit.

For more information, please contact an RH&A representative or visit www.irs.gov.