

What You Need to Know about the Small Business Health Care Tax Credit

How will the credit make a difference for you?

For tax years 2010 through 2013, the maximum credit is 35 percent for small business employers and 25 percent for small tax-exempt employers such as charities. An enhanced version of the credit will be effective beginning Jan. 1, 2014. Additional information about the enhanced version will be added to IRS.gov as it becomes available. In general, on Jan. 1, 2014, the rate will increase to 50 percent and 35 percent, respectively.

Here's what this means for you. If you pay \$50,000 a year toward workers' health care premiums – and if you qualify for a 15 percent credit, you save ... \$7,500. If you save \$7,500 a year from tax year 2010 through 2013, that's total savings of \$30,000. If, in 2014, you qualify for a slightly larger credit, say 20 percent, your savings go from \$7,500 a year to \$12,000 a year.

Even if you are a small business employer who did not owe tax during the year, you can carry the credit back or forward to other tax years. Also, since the amount of the health insurance premium payments are more than the total credit, eligible small businesses can still claim a business expense deduction for the premiums in excess of the credit. That's both a credit and a deduction for employee premium payments.

There is good news for small tax-exempt employers too. The credit is refundable, so even if you have no taxable income, you may be eligible to receive the credit as a refund so long as it does not exceed your income tax withholding and Medicare tax liability.

And finally, if you can benefit from the credit this year but forgot to claim it on your tax return there's still time to file an amended return.

Can you claim the credit?

Now that you know how the credit can make a difference for your business, let's determine if you can claim it.

To be eligible, you must cover at least 50 percent of the cost of single (not family) health care coverage for each of your employees. You must also have fewer than 25 full-time equivalent employees (FTEs). Those employees must have average wages of less than \$50,000 a year.

Let us break it down for you even more.

You are probably wondering: what *IS* a full-time equivalent employee. Basically, two half-time workers count as one full-timer. Here is an example, 20 half-time employees are equivalent to 10 full-time workers. That makes the number of FTEs 10 not 20.

Now let's talk about average wages. Say you pay total wages of \$200,000 and have 10 FTEs. To figure average wages you divide \$200,000 by 10 – the number of FTEs – and the result is your average wage. The average wage would be \$20,000.

Also, the amount of the credit you receive works on a sliding scale. The smaller the business or charity, the bigger the credit. So if you have more than 10 FTEs or if the average wage is more than \$25,000, the amount of the credit you receive will be less.

How do you claim the credit?

You must use Form 8941, Credit for Small Employer Health Insurance Premiums, to calculate the credit.

If you are a small business, include the amount as part of the general business credit on your income tax return.

If you are a tax-exempt organization, include the amount on line 44f of the Form 990-T, Exempt Organization Business Income Tax Return. You must file the Form 990-T in order to claim the credit, even if you don't ordinarily do so.

Don't forget ... if you are a small business employer you may be able to carry the credit back or forward. And if you are a tax-exempt employer, you may be eligible for a refundable credit.