

Small Business Tax Credit - 2010

The Patient Protection and Affordable Care Act (ACA) contains a number of initiatives that help small businesses purchase health insurance for their employees. Small businesses often have difficulty providing health insurance for their employees because they do not have the negotiating power of large businesses and corporations and are particularly vulnerable to cost increases if an employee gets sick. State efforts to regulate insurance for small businesses vary widely across the country, creating a confusing patchwork of rules and regulations that influence the content and cost of small business insurance plans.

The ACA provides financial assistance to qualified small businesses towards the purchase of health insurance for their employees.

To qualify, the employer:

- Has to employ fewer than 25 full-time workers (different rules apply for part-time workers);
- Must have average annual wages of less than \$50,000 per full-time employee;
- Must contribute at least 50 percent of the cost of their employees' health insurance premiums to qualify for the credit;

How much is the tax credit?

It depends on a number of factors, whether the business is for-profit or non-profit, the number of workers it employs, and the average annual wage of employees. The small business tax credit begins with a smaller amount in 2010 to 2013 and then increases in 2014 and subsequent years, until it "sunset" by 2015. The credit is available for up to 6 years, from 2010 to 2013 and any two years after that. The amount of tax credit is provided on a sliding scale.

- From 2010-2013, the tax credit for for-profit businesses equals up to 35 percent of the cost of their contribution to employees' health insurance. Non-profit firms who qualify can receive a smaller credit of up to 25 percent of an employer's contribution.
 - The Congressional Research Service (CRS) offers this example: if the total premium of an employee's health plan is \$7,500 and the employer contributes to 60 percent of the cost of the premium (\$4,500), then the maximum credit would be \$1,575, or 35 percent of the 60 percent contribution.
- The amount of tax credit is provided on a sliding scale. According to CRS, employers with average annual wages of \$25,000 and 10 employees will receive the maximum credit. The level of credit is phased down as the number of employees and average annual wages increases.

How do qualifying small business owners, e.g. physicians who qualify, claim the tax credit?

The tax credit is available now, and an employer can claim it on their annual income tax return. Eligible tax-exempt employers can fill out an IRS Form 8941 to determine the amount of credit for which they are eligible and then IRS Form 990-T to claim the credit. Business owners would not include their income in a calculation to determine eligibility or amount of the credit. This restriction would include a shareholder owning more than 2 percent of an "S" corporation, a sole proprietor, a partner in a partnership, an owner of more than 5 percent of other businesses, or a family member or dependent of such an individual.

Additionally, an owner does not count as an employee when calculating the number of full-time employees. So, if a physician is also the owner of his/her practice, his/her salary is not counted when determining if his/her firm qualifies for the small business tax credit. The salary of a physician employed by a practice would be considered if they do not meet the above criteria (e.g. partner in a partnership, sole proprietor, etc.). Employers (other than tax-exempt employers) with no taxable income for the year cannot qualify for the credit since it is applied to the employer's income tax liability. However, the IRS notes that an unused health insurance credit that is considered a general business credit can be carried forward up to 20 years. It is unclear if physicians who claim business income as personal income for tax purposes will be eligible for the credit. Physicians are encouraged to consult their financial advisor to determine if their practice is eligible for the small business tax credit.

Additional Resources

- *Internal Revenue Service. Small Business Health Care Tax Credit: Frequently Asked Questions, Provides detailed information on how to determine whether your business qualifies for the credit and what you need to do to claim the credit.*

<http://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit:-Questions-and-Answers>
- *Small Business Majority. Health Insurance Premium Tax Credit Calculator; Interactive calculator that helps you determine if your business may qualify for the tax credit and the amount you may be able to claim.*

<http://smallbusinessmajority.org/tax-credit-calculator/>
- *New York Times. How the Health Care Law Affects Your Business; Features a number of questions and answers related to how the health care reform law will affect small businesses, including inquiries on the tax credit.*

<http://boss.blogs.nytimes.com/2010/03/31/how-the-health-care-law-affects-your-business/>
- *American Medical News: Tax Credits Help Offset Staff Insurance Costs; Article regarding how physician's practices might be able to benefit from the small business tax credit.*

<http://www.ama-assn.org/amednews/2010/05/03/bica0503.htm>
- *Internal Revenue Service: 3 Simple Steps for Employers to Qualify; Worksheet to help determine if you qualify for the tax credit.*

http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf