

## **Small Business Tax Credits - 2014**

The Patient Protection and Affordable Care Act (ACA) provides tax credits to small businesses to help them purchase employee health insurance. 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.

### **How much is the tax credit?**

Beginning in 2014, the amount of the tax credit will be a maximum of 50 percent of the employer's contribution (35 percent for non-profit firms) towards their employees' health insurance premium. The credit is available for up to 6 years, from 2010 to 2013 and any two years after that.

### **To qualify, the employer:**

- Would have to employ fewer than 25 full-time equivalent workers (different rules apply for part-time workers);
- Must have average annual wages of less than \$50,000 per full-time employee (not including business owner's income);
- Must contribute at least 50 percent of the cost of their employees' health insurance premiums to qualify for the credit.
- Must purchase coverage through the small business health insurance, or SHOP, marketplace.

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

Starting in 2014, the small business health insurance tax credit will subsidize up to 50 percent of an employer's contribution to employees' health insurance cost. Small business employers can claim the credit on their annual income tax return while non-profit small employers may fill out an Internal Revenue Service claim calculation form.

The definition of "business owner" includes 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 would not count as an employee when calculating the number of full-time employees. So, if a physician is also the owner of their practice, their salary would not be counted when determining if their 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 use the credit for that year since it is applied to the employer's income tax liability. However, the IRS notes that an unused health insurance credit is considered a general business credit and can be applied to be carried back one year (excepting 2010 credits) and 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/newsroom/article/0,,id=220839,00.html>

- *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](http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf)

- *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/>

- *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. Includes a number of examples of how physician practices might benefit from the tax credit.*

<http://www.ama-assn.org/amednews/2010/05/03/bica0503.htm>