

Small Business Healthcare Tax Credits

In March 2010, federal healthcare reform was enacted. The new law, called the Affordable Care Act, goes a long way in fixing the serious problems small businesses and the self-employed face in the current healthcare system, including skyrocketing costs.

One of the first provisions implemented to help small employers better afford insurance was the small business healthcare tax credits. Approximately 4 million small businesses qualified in 2010 for the tax credit to offset employer health plan costs.

Who's eligible

- Businesses with fewer than 25 full-time equivalent employees
- Employees have average annual wages of less than \$50,000
- Employer contributes 50% of the health insurance premium

Details of the credit

- Nonprofit organizations will qualify for tax credits of up to 25% of the employer contribution from 2010-2013. Also, any state tax credit a small business owner receives for providing coverage will not reduce the amount of the federal tax credit.
- In 2014, eligible small businesses purchasing coverage via an exchange will receive tax credits of up to 50% of the employer contribution. Nonprofits will qualify for credits of up to 35%.
- Seasonal employees will not be counted when determining eligibility. A business can claim the credit for any two years in the future. The law explicitly excludes sole proprietorships and family members from the small business tax credits (but they can apply for individual tax credits).
- Nonprofits cannot take a health insurance credit that is larger than their payroll taxes; nonprofits are taking the credit against their payroll taxes.
- Small businesses that take the credit still maintain full deductibility of the cost of health insurance.

How to claim the credit

- The credit is claimed on the business's annual tax return. Small employers will use new [Form 8941](#), available on www.irs.gov.
- Small businesses can claim the credit after taxes have been filed by filing a correction. Simply fill out an amended return, [Form 1040x](#), and attach the [Form 8941](#) to complete the process. For more information, contact your [local IRS office](#).
- Tax-exempt organizations can claim the small business healthcare tax credit on a revised Form 990-T. The Form 990-T is currently used by tax-exempt organizations to report and pay the tax on unrelated business income.

Determine if you're eligible for a credit by using our online tax credit calculator:

<http://smallbusinessmajority.org/tax-credit-calculator/>

For more information on the tax credits, including but not limited to: How to calculate average annual wage; how to determine the number of full-time equivalent employees; and how to claim the credit if you file an extension visit <http://smallbusinessmajority.org/hc-reform-faq/index.php>.