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STRATEGIC WORKPLACE SOLUTIONS, LLC

Does Your Business or Tax Exempt Organization Qualify for the Small Business Health Care Tax Credit?

By Carolyn Worthington and Carol Rovello

Many small employers could be helped by a small businesses tax credit that makes premiums more affordable. Health reform legislation signed by President Obama includes a Small Business Health Care Tax Credit to help small employers afford the cost of covering their workers.

Eligibility

The Council of Economic Advisors estimates that 4 million small employers are eligible for the credit if they provide health care to their workers. Qualifying businesses and tax-exempt organizations must have less than the equivalent of 25 full-time workers (e.g., a employers with fewer than 50 half-time workers would be eligible), pay average annual wages below \$50,000, and cover at least 50 percent of the cost of health care coverage for their workers.

Key Facts about the Small Business Health Care Tax Credit

- The tax credit, which is effective immediately, can cover up to 35 percent of the premiums an eligible small business pays to cover its workers. In 2014, the rate will increase to 50 percent.
- Eligible tax-exempt organizations are allowed a 25 percent tax credit in 2010. In 2014, this rate increases to 35 percent. (The credit rates are lower for non-profits to ensure that the value of the credit is approximately equal to that provided to for-profit firms that cannot claim a tax deduction for the amount of the credit claimed.)
- The Congressional Budget Office estimates that the tax credit will save eligible small employers \$40 billion by 2019.
- Both small for-profit businesses and small not-for-profit organizations are eligible, as defined above.

Key Elements

- **Available Immediately.** The credit is effective January 1, 2010. As a result, eligible small employers that provide health care for their workers will receive immediate help with their premium costs, and additional eligible employers that initiate coverage this year will get a tax cut as well.
- **Substantial Benefit.** The credit is worth up to 35 percent of an eligible small business's premium costs in 2010. On January 1, 2014, this rate increases to 50 percent. For tax-exempt employers, the credit has been adjusted, as described above.
- **Gradual Phase-Outs.** The credit phases out gradually for employers with average wages between \$25,000 and \$50,000 and for employers with the equivalent of between 10 and 25 full-time workers.
- **Premium Cost Eligibility.** To avoid an incentive to choose a high-cost plan, an employer's eligible contribution is limited to the average cost of health insurance in that state.

How to Determine Your Organization's Eligibility

The IRS has posted the eligibility formula online to help small employers determine if they qualify for the tax credit. The link is: http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf.

Sources:

<http://www.healthreform.gov/> (This site is managed by the U.S. Department of Health & Human Services.)

<http://www.whitehouse.gov/healthreform/small-business/tax-credit>



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