



For Your Benefit

Health Care Reform: Small Employer Tax Credit

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The Patient Protection and Affordable Care Act of 2010 (PPACA), also known as Health Care Reform, provided an incentive for small employers to start or continue to offer health coverage to its employees. Effective retroactively for all of 2010, for-profit employers with 10 or fewer full-time equivalent employees (FTEs) with an average annual wage of \$25,000 or less will be eligible for a business tax credit of 35 percent of health insurance costs that it pays. Similar not-for-profit employers are eligible for up to a 25 percent tax credit that reduces that employer's share of FICA and Medicare payroll taxes. Employers with between 11 and 25 FTEs who have an average annual wage of up to \$50,000 are eligible for partial tax credits on a sliding scale. This tax credit will remain in place, increasing up to 50 percent of for-profit (and 35 percent of not-for-profit) employer-paid costs for the first two years that an employer buys health coverage through a state Exchange starting in 2014. The IRS has provided [useful guidance](#) to assist employers in determining their eligibility for and method of obtaining this tax credit.

For purposes of calculating the number of FTEs and their wages, the term "employees" excludes seasonal workers (working no more than 120 days during the year). In addition, the term "employees" excludes the following (as defined in the Internal Revenue Code): a self-employed individual, a 2% shareholder in an S-corporation, a 5% owner of an eligible small employer, or someone who is a relation or dependent of these people. Thus, for example, the employer will not receive a credit for small employer owners or their family members. After excluding these individuals and their wages, FTEs are then calculated by dividing the total hours worked by all eligible employees during the tax year by 2,080 (with a maximum of 2,080 hours for any one employee).

To qualify for the tax credit, a small employer must pay a uniform percentage for each coverage level that is at least 50 percent of the premium cost towards employees' coverage. For 2010, the IRS has provided transition relief regarding this requirement. For that year only, an employer is treated as satisfying the 50 percent requirement even if it contributes varying amounts towards coverage for different employees, as long as it contributes at least 50 percent of the employee-only coverage amount, regardless of whether the employee enrolls in employee-only or family coverage.

Further, for tax years prior to 2014, the PPACA placed a cap on the amount of the tax credit available by limiting the overall cost of coverage to the lesser of 1) actual employer cost; or 2) a state-by-state amount for average small employer health care costs. In [Revenue Ruling 2010-13](#), the IRS has released those state-by-state amounts for employers to use to calculate their eligible tax credit.

For eligible small employers, this tax credit will be a strong incentive to either begin or continue to offer health coverage to its employees.

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