

# Health Care Tax Credit for Small Employers

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Included in the Affordable Care Act, this new credit helps small businesses and **small tax-exempt organizations** afford the cost of covering their employees.

## Eligibility

This credit is available to both taxable businesses and **tax-exempt organizations**. As with most any federal tax credit, there are certain eligibility requirements which need to be met.

### 3 Simple Steps to Determine if the Employer Qualifies:

1. Does the employer cover at least 50% of the health care (HC) coverage for some of its workers based on the single rate (employee only)?
2. Does the employer have less than the equivalent of 25 full-time employees (FTEs)?
  - A full-time worker is one that is paid for approximately 2,080 hours a year
  - An equivalent can be calculated by dividing (a) the hours of service for which employees are paid by (b) 2,080 hours; the result is then rounded down.
3. Does the employer pay an annual average wage less than \$50,000?
  - This can be calculated by dividing (a) the total wages paid to employees who perform services by (b) the number of FTEs during the year; the result is rounded down to the nearest \$1,000.

If the responses to all 3 questions are “Yes”, the employer qualifies for the tax credit.

## Amount of Credit

The tax credit available depends on the amount of premium costs paid, the number of FTE’s and the average annual wage per FTE.

- Tax-Exempt Organizations
  - Years 2010 – 2013: maximum credit is up to 35% of premium costs
  - Year 2014 & beyond: maximum credit is up to 50% of premium costs
  - The credit cannot exceed the total amount of federal income tax and Medicare tax the employer is required to withhold from employees’ wages, plus the employer share of Medicare tax on employees’ wages.
- The tax credit phases out:
  - As average wages increase between \$25,000 – \$50,000, and
  - FTEs increase from 10 – 25

## Claiming the Credit

Tax-exempt organizations will use new [Form 8941](#), Credit for Small Employer Health Insurance Premiums, to calculate the small business health care tax credit. The IRS has posted to its website the [Instructions to Form 8941](#) and [Notice 2010-82](#), both of which are designed to help small employers correctly figure and claim the credit. Tax-exempt organizations will include the amount of the credit on Line 44f of revised Form 990-T, Exempt Organization Business Income Tax Return.

- *Form 990-T ([draft](#) available for viewing) will be revised for the 2011 filing season to enable eligible tax-exempt organizations – even those that owe no tax on unrelated business income – to claim the small business health care tax credit.*

The preceding information has been presented as an overview, and does not constitute tax advice. Consult with your tax preparer or contact Tim McCutcheon at Anton Collins Mitchell LLP (303) 830-1120 for more information.

For more detailed information about the credit, visit the [frequently asked questions](#) page on IRS.gov.