

Health Care Reform & You

Part of an ongoing series about the impact of Health Care Reform



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This information is a service to our partners. It is not intended to be a comprehensive summary of recent health care legislation nor does it serve as legal advice.

New Small Business Tax Credits: What you need to know

Many small businesses and tax-exempt organizations that provide health insurance coverage to their employees now qualify for a special tax credit. The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

Who is eligible?

The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ low and moderate income workers:

- Employer must have fewer than 25 full-time equivalent (FTE) employees. (An employer with less than 50 half-time workers may be eligible.)
- Average wage must be less than \$50,000 per employee per year
- Employer must pay at least 50 percent of the premiums, based on the employee-only rate, for each employee enrolled in health care coverage offered by the employer.

Is your small business eligible?

If you are a small employer that provides health insurance coverage to your employees, you may be able to take advantage of the new tax credits. To determine if your small business or tax exempt organization qualifies for the Small Business Health Care Tax Credit, follow these three simple steps.

Step 1: Employee Count

Determine the total number of your employees (not counting owners or family members):

Number of full-time employees: _____
(the number of employees who work at least 40 hours per week)
+
Full-time equivalent of part-time employees: _____
(Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)
= _____ total employees. If the total number of employees is fewer than 25 GO TO STEP 2.

Step 2: Average Wages

Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees:
\$ _____
÷
Divide it by the number of employees from STEP 1: _____ (total wages ÷ number of employees) = \$ _____ average wages

Step 3: Review

If the result is less than \$50,000, AND you pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then you may be able to claim the Small Business Health Care Tax Credit.

How much are the tax credits?

The maximum credit is 35 percent of premiums paid in 2010 by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. In 2014, this maximum credit increases to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible employers that are tax-exempt organizations. The maximum credit goes to smaller employers — those with 10 or fewer FTEs — paying annual average wages of \$25,000 or less.

These 3 scenarios illustrate how the credit applies to employers in different circumstances.

Example 1:

Auto Repair Shop with 10 Employees Gets \$24,500 Credit for 2010

- Main Street Mechanic:
- Employees: 10
 - Wages: \$250,000 total, or \$25,000 per worker
 - Employee Health Care Costs: \$70,000
 - 2010 Tax Credit: \$24,500 (35% credit)
 - 2014 Tax Credit: \$35,000 (50% credit)

Example 2:

Restaurant with 40 Part-Time Employees Gets \$28,000 Credit for 2010

- Downtown Diner:
- Employees: 40 half-time employees (the equivalent of 20 full-time workers)
 - Wages: \$500,000 total, or \$25,000 per full-time equivalent worker
 - Employee Health Care Costs: \$240,000
 - 2010 Tax Credit: \$28,000 (35% credit with phase-out)
 - 2014 Tax Credit: \$40,000 (50% credit with phase-out)

Example 3:

Foster Care Non-Profit with 9 Employees Gets \$18,000 Credit for 2010

- First Street Family Services.org:
- Employees: 9
 - Wages: \$198,000 total, or \$22,000 per worker
 - Employee Health Care Costs: \$72,000
 - 2010 Tax Credit: \$18,000 (25% credit)
 - 2014 Tax Credit: \$25,200 (35% credit)

When do the tax credits start?

Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011. For tax-exempt employers, the IRS will provide further information on how to claim the credit.

Find out more!

Visit www.irs.gov for more information including tax tips, guides and Answers to Frequently Asked Questions.