



## Small business healthcare tax credit

By Benjamin Aspir

### ONE OF THE BIGGEST EXPENSES FOR

any small business is its employer sponsored health insurance premiums. Fortunately, there's a tax credit that may help your small business recoup part of this ever-increasing expense. The Affordable Care Act enacted in 2010 allows up to a 35% tax credit for small business sponsored health care insurance premiums. The tax credit also applies to vision and dental insurance premiums. The 35% rate will increase to 50% after 2013.

The Government Accountability Office recently reported that in 2010 only 170,000 out of four million eligible small businesses employers claimed this potentially lucrative tax credit which has inspired many to criticize the credit as too weak and complex. The report noted that only a fraction of those eligible have used the assistance; between 1.4 million and four million small businesses were eligible for the tax credit.

### Is your business eligible?

In order for a small business to be eligible, the company must meet the following criteria:

- Have fewer than 25 full-time equivalent eligible employees. (Two half-time workers equal one full-time worker for the purposes of this calculation);
- Pay at least half of its employees health insurance premiums;
- Pay an average annual wage of less than \$50,000 to its employees.

The following individuals aren't considered employees for the purposes of

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**Federal law gives a tax credit to eligible small employers who provide health care coverage to their employees, but just a small fraction of eligible businesses are cashing in. Here's what you need to know.**

this tax credit:

- An owner in a sole proprietorship (Schedule C filers);
- Partner in a partnership;
- Two percent S corporation shareholder;
- Five percent C corporation shareholder.

Family members or dependents of the above mentioned individuals also don't qualify as employees.

### Are small tax exempt employers such as charities eligible?

Tax exempt employers are in fact eligible for the tax credit, up to 25% to the extent the credit doesn't exceed the organization's income tax withholding and Medicare tax liability for the tax year. The credit for tax exempt employers will increase to 35% after 2013.

### How do I claim this tax credit?

The credit is claimed by filing IRS form 8941 which should be included with the company's annual tax return. If the company is eligible for the credit for 2011 and/or 2010 but didn't claim it on its tax return, the company may amend its tax

return in order to claim the credit. The credit is nonrefundable. That means if a company had a year in which it didn't have any tax liability, the credit can't be used for that year. However, the healthcare credit is considered to be a general business credit and any unused credit amount can usually be carried forward up to 20 years. If you are a tax-exempt organization, you must file form 990-T instead of form 8941 in order to claim the credit regardless if the organization doesn't ordinarily file form 990-T.

### Example of the credit

If a company has eight eligible full-time employees with an average annual salary of \$25,000, and the company pays 100% of the eligible employees premiums which totals \$40,000, the employer is eligible for a tax credit of 35% of \$40,000, or \$14,000.

The full 35% credit goes to companies with the equivalent of ten eligible full-time or fewer workers paid, on average, less than \$25,000 annually. Companies that meet this criteria will see their credit phase out to zero once the average wages reach \$50,000, or the average eligible employees exceed 25.

A company's contributions to health reimbursement arrangements, flexible spending accounts, or health savings accounts don't qualify as eligible premiums for purposes of this credit. It's highly recommended that one engage an experienced tax professional to assist with claiming the tax credit.

For more information about the small business healthcare tax credit or any other accounting and tax need, feel free to call me or your tax professional. □