

Eligibility for The Small Business Health Insurance Credit

For owners of small businesses and their workers, the recently enacted health reform legislation has some key provisions to pay attention to.

The major ones include: tax credits; excise taxes; and penalties. A variety of factors will determine whether a business will be eligible.

Tax credits to certain small employers that provide insurance:

- The new law provides small employers with a tax credit (i.e., a dollar-for-dollar reduction in tax) for non-elective contributions to purchase health insurance for their employees. The credit can offset an employer's regular tax or its alternative minimum tax (AMT) liability.

Small business employers eligible for the credit:

- To qualify, a business must offer health insurance to its employees as part of their compensation and contribute at least half the total premium cost.
- The business must have no more than 25 full-time equivalent employees ("FTEs"), and the employees must have annual full-time equivalent wages that average no more than \$50,000.
- The full amount of the credit is available only to an employer with 10 or fewer FTEs and whose employees have average annual full-time equivalent wages from the employer of less than \$25,000.

Years the credit is available:

- The credit is initially available for any tax year beginning in 2010, 2011, 2012, or 2013.
- In order to claim the credit in the first phase, qualifying health insurance must be purchased from an insurance company licensed under state law.
- For tax years beginning after 2013, the credit is only available to an eligible small employer that purchases health insurance coverage for its employees through a state exchange and is only available for two years.
- The maximum two-year coverage period does not take into account any tax years beginning in years before 2014. Thus, an eligible small employer could potentially qualify for this credit for six tax years, four years under the first phase and two years under the second phase.

Calculating the amount of the credit:

- For tax years beginning in 2010, 2011, 2012, or 2013, the credit is generally 35% (50% for tax years beginning after 2013) of the employer's non-elective contributions toward the employees' health insurance premiums.
- The credit phases out as firm-size and average wages increase.
- Tax-exempt small businesses meeting these requirements are eligible for payroll tax credits of up to 25% for tax years beginning in 2010, 2011, 2012, or 2013 (35% in tax years beginning after 2013) of the employer's non-elective contributions toward the employees' health insurance premiums.

Special rules:

- The employer is entitled to an ordinary and necessary business expense deduction equal to the amount of the employer contribution **minus** the dollar amount of the credit. For example, if an eligible small employer pays 100% of the cost of its employees' health insurance coverage and the amount of the tax credit is 50% of that cost (i.e., in tax years beginning after 2013), the employer can claim a deduction for the other 50% of the premium cost.

Self-employed individuals, including partners and sole proprietors, two percent shareholders of an S corporation, and five percent owners of the employer are not treated as employees for purposes of this credit.

- Any employee with respect to a self-employed individual is not an employee of the employer for purposes of this credit if the employee is not performing services in the trade or business of the employer.
- The credit is not available for a domestic employee of a sole proprietor of a business.
- There is also a special rule to prevent sole proprietorships from receiving the credit for the owner and their family members.
- No credit is available for any contribution to the purchase of health insurance for these individuals, and the individual is not taken into account in determining the number of full-time equivalent employees or average full-time equivalent wages.

*Click [HERE](#) for FAQ found on the IRS web site.

*Click [HERE](#) for a helpful “calculator” to determine eligibility.

*Click [HERE](#) for Small Business examples

*Click [HERE](#) for a brief video from the IRS

