

Legislative Brief

IRS Releases Information on Claiming Small Employer Health Care Tax Credit



The Patient Protection and Affordable Care Act (PPACA) was enacted on March 23, 2010. PPACA includes a tax credit for small businesses that provide health care coverage to their employees. The tax credit is effective for tax years beginning in 2010. The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

On September 7, 2010, the Internal Revenue Service (IRS) released a draft version of the form that small businesses and tax-exempt organizations will use to calculate the small business health care tax credit when they file income tax returns. The IRS also announced how eligible tax-exempt organizations – which do not generally file income tax returns – will claim the credit during the 2011 filing season.

Form 8941 - Credit for Small Employer Health Insurance Premiums

The IRS has posted [a draft of Form 8941](#) on www.irs.gov. Both small businesses and tax-exempt organizations will use the form to calculate the credit. A small business will then include the amount of the credit as part of the general business credit on its income tax return.

Tax-exempt organizations will instead claim the small business health care tax credit on a revised Form 990-T. The Form 990-T is currently used by tax-exempt organizations to report and pay the tax on unrelated business income. Form 990-T 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 final version of Form 8941 and its instructions will be available later in 2010.

Eligibility for the Small Business Tax Credit

In 2010, the credit is generally available to small employers that contribute an amount equivalent to at least half the cost of single coverage toward buying health insurance for their employees. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ moderate- and lower-income workers.

For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. Beginning in 2014, the maximum tax credit will go up to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible, tax-exempt organizations for two years. The maximum credit goes to smaller employers – those with 10 or fewer full-time equivalent (FTE) employees – paying annual average wages of \$25,000 or less.

Legislative Brief

IRS Releases Information on Claiming Small Employer Health Care Tax Credit

The credit is completely phased out for employers that have 25 FTEs or more or that pay average wages of \$50,000 per year or more. Because the eligibility rules are based in part on the number of FTEs, and not simply the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals.

More Information

The resources listed below contain additional information about the tax credit.

- A copy of draft Form 8941: www.irs.gov/pub/irs-dft/f8941--dft.pdf.
- General IRS information about PPACA: www.irs.gov/newsroom/article/0,,id=220809,00.html.
- Steps for determining eligibility for the credit: www.irs.gov/pub/irs-utl/3_simple_steps.pdf.
- Answers to frequently asked questions about the credit: www.irs.gov/newsroom/article/0,,id=220839,00.html.

Source: Internal Revenue Service

KP 9/10

*This **The Barnett Group Legislative Brief** is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel for legal advice.*

© 2010 Zywave, Inc. Images © 2000 Getty Images, Inc. All rights reserved.