

National Health Insurance Reform - Small Business Tax Credits

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Note: This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

The Patient Protection and Affordable Care Act (the "Act") signed by President Obama on March 23, 2010, provides a tax credit to certain small employers that provide health coverage to their employees. Below are initial details about the tax credit.

NOTE: The information provided below is based on guidance published by the Internal Revenue Service (IRS). The information will be updated as further guidance becomes available from the U.S. Department of Health and Human Services (HHS) and/or the IRS. For information specific to your circumstances about the tax implications of the law and related IRS Rulings, please consult with a tax specialist.

When does the tax credit begin?

The tax credit became effective upon enactment of the Act, or March 23, 2010. Premium contributions made by qualifying small employers before March 23, 2010, will count for purposes of calculating the tax credit amount. Qualifying employers will be able to claim the credit for tax years beginning with the 2010 tax year.

Who qualifies for the tax credit?

To qualify for the tax credit, a small employer must:

- Employ fewer than 25 full-time equivalent employees ("FTEs") during the tax year;
- Have average annual wages of less than \$50,000 per FTE for the tax year;
- Contribute at least 50% of the premium cost (based on the premium rate for single, employee-only coverage) for health coverage provided to employees during the tax year.

NOTE: For purposes of determining the number of employees and the annual average wages, business owners (including sole proprietors, partners, shareholders owning more than two percent of an S corporation, and owners of more than five percent of other corporations) do not count.

What is the maximum tax credit amount?

The amount of the tax credit for a qualifying small employer will vary depending on the number of employees, the average annual wages, and the cost of the premiums paid by the employer.

Qualifying small employers with: 1) 10 or fewer full-time equivalent employees, and 2) average annual wages of \$25,000 or less, will be eligible for the **full 35% tax credit**.

Beginning with the 2014 tax year, the maximum tax credit will be increased from 35% to 50%.

NOTE: The maximum credit for tax-exempt small employers will be 25% for the 2010-2013 tax years, and 35% thereafter. However, the credit amount for tax-exempt small employers cannot exceed the total amount of income and Medicare tax the employer is required to withhold from employee wages for the tax year, plus the employer's share of the Medicare tax on employee wages. For additional details about calculating the credit for tax-exempt employers, please see the IRS fact sheet <https://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit:-Questions-and-Answers>

How is the tax credit calculated?

In calculating the dollar amount of the tax credit, only the portion of premiums paid by the employer will count. For example, the tax credit for a qualifying small employer that pays 60% of the premium cost for health coverage provided to employees (with employees paying the remaining 40%) will be calculated based on the 60% paid by the employer.

In addition, the amount of employer premium contributions that count for purposes of the tax credit will be capped based on the "average premium" in the small group market (the market for health insurance sold to employers with 50 or fewer full-time employees) in the State, or an area within the State.

According to the [IRS Revenue Ruling 2010-13](#), HHS has determined the average premium for the small group market in Illinois to be **\$5,198** for employee-only coverage and **\$12,309** for family coverage for the 2010 taxable year. According to the IRS, "HHS recognizes that there may be areas in some States with meaningfully higher premium rates. For the 2010 taxable year, HHS may provide additional average premium rates for the small group market in certain areas within States." The Department will update this fact sheet if HHS provides average premium rates for areas within Illinois.

For additional information and specific examples explaining how the tax credit will be capped based on the average premium in a State, please consult the IRS Notice 2010-44 available on the IRS website at <http://www.irs.gov/pub/irs-drop/n-10-44.pdf>.

The tax credit for small employers with 11-24 FTEs and/or average annual wages of \$25,001-\$49,999 will be reduced based on the number of FTEs and the average annual wages. The formula used to calculate the credit amount for these small employers is available on the IRS website at <https://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit:-Questions-and-Answers>.

The IRS has also published a helpful “Scenarios” fact sheet to illustrate how the tax credit applies to small employers in different circumstances: http://www.irs.gov/pub/irs-utl/small_business_health_care_tax_credit_scenarios.pdf.

How does a qualifying employer claim the credit?

The credit is claimed on the qualifying small employer’s annual income tax return. For a tax-exempt employer, the IRS will provide further information on how to claim the credit.

If the amount of the credit exceeds an employer’s income tax liability for a tax year, the credit can generally be carried forward for 20 years or carried back one year (except that it may not be carried back to a year before the credit became effective, or 2010).

Where can I find additional information?

For additional information about the small employer health insurance tax credit, please visit the IRS website at <http://www.irs.gov/newsroom/article/0,,id=220809,00.html>.

For additional information about health insurance reform, or other insurance-related questions, please visit the Department’s website at <http://insurance.illinois.gov> or call our Office of Consumer Health Insurance toll free at (877) 527-9431.