

Small Business Health Care Tax Credit Scenarios

Example 1 Auto Repair Shop with 10 Employees

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

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)

Eligibility Rules

- **Providing health care coverage.** A qualifying employer must cover at least 50 percent of the cost of health care coverage for some of its workers based on the single rate.
- **Firm size.** A qualifying employer must have less than the equivalent of 25 full-time workers (for example, an employer with fewer than 50 half-time workers may be eligible).
- **Average annual wage.** A qualifying employer must pay average annual wages below \$50,000.
- **Both taxable (for profit) and tax-exempt firms qualify.**

Amount of Credit

- **Maximum Amount.** The credit is worth up to 35 percent of a small business' premium costs in 2010. On Jan. 1, 2014, this rate increases to 50 percent (35 percent for tax-exempt employers).
- **Phase-out.** The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

Affordable Care Act: Small Business Health Care Tax Credit

The Small Business Health Care Tax Credit helps small businesses and small tax-exempt organizations afford the cost of covering their employees.

The new health reform law gives a tax credit to certain small employers that provide health care coverage to their employees, effective with tax years beginning in 2010.



News release [IR-2010-38](#), New for 2010: Tax Credit Helps Small Employers Provide Health Insurance Coverage, gives a description of the credit and when and how to claim it.

Frequently Asked Questions for the Small Business Health Care Tax Credit: are also available online at [IRS.gov](#).

3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:

1

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

Full-time employees: _____
(enter 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**

2

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

If the result is less than \$50,000, **AND**

3

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**.
Find out more information at **IRS.gov**

