

If you are a Small Business Owner, *health reform can help you!*

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.

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.

The IRS has a simple three-step calculator you can use to determine if your small business might qualify for the tax credit: http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf.

For additional details regarding the calculation of the number of FTEs and annual average wages, please see the IRS fact sheet: <http://www.irs.gov/newsroom/article/0,,id=220839,00.html>.

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%.

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.

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 <http://www.irs.gov/newsroom/article/0,,id=220839,00.html>.

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.

Source: Illinois Department of Insurance



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