



Small Business Health Care Tax Credit

What is it? The Marketplace is the exclusive place to access small business tax credits in 2014.

- A tax credit is available to small businesses that offer insurance coverage to employees:
 - Must have fewer than 25 FTE employees
 - With an average annual salary of \$50k or less (Excludes the owner and his family)
 - Employer must contribute at least 50% of the lowest cost employee coverage premium that is offered
- As of 2014, the tax credit amounts are as follows:
 - **Up to** 50% of employer contribution for a traditional businesses (35% for tax-exempt)
 - The maximum tax credit of 50% may be claimed by businesses that have 10 or fewer employees with an average annual salary of \$25k or less
 - As the number of employees and average salary increases, the credit decreases
- Marketplace is the **only place** to access the tax credit

How does it work? Calculating the Small Business Tax Credit

- **Total Full Time Employees** (FTEs) + (Total Annual Part Time Hours/2080)
 - Owners are excluded from FTE count and employer cannot receive tax credit for owner's insurance
 - All employee hours counted and based on 40 hour week
- **Wages** = Total Wages Paid/ FTEs
 - Owner and family member wages are excluded from total wages
- **Maximum Small Business Health Care Tax Credit**
 - Up to 50% of a small business' premium costs in 2014 for two years
 - Up to 35% for tax-exempt employers (refundable via payroll tax) for two years

To access the IRS Tax Credit Estimator, go to <http://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit-for-Small-Employers>

Small Business Health Care Tax Credit: Illustration*

Main Street Auto Mechanics has 10 full time employees; part time hours total 10,400; total wages are \$450,000; and the auto shop owner contributes \$20,000 toward health insurance premiums. Main Street Auto Mechanics' tax credit is show below.

10 FTEs + [10,400 Part Time Hours/2,080=5] = 15 Full Time Equivalent Employees

Wages = \$450,000 total wages/15 = \$30,000

Using the IRS table below, find the firm size (15) and average wage (\$30,000) to calculate the tax credit percentage (23%).

Phase Out Table for 2014 Small Business Health Care Tax Credit

Firm size	Average wage					
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000
Up to 10	50%	40%	30%	20%	10%	0%
11	47%	37%	27%	17%	7%	0%
12	43%	33%	23%	13%	3%	0%
13	40%	30%	20%	10%	0%	0%
14	37%	27%	17%	7%	0%	0%
15	33%	23%	13%	3%	0%	0%
16	30%	20%	10%	0%	0%	0%
17	27%	17%	7%	0%	0%	0%
18	23%	13%	3%	0%	0%	0%
19	20%	10%	0%	0%	0%	0%
20	17%	7%	0%	0%	0%	0%
21	13%	3%	0%	0%	0%	0%
22	10%	0%	0%	0%	0%	0%
23	7%	0%	0%	0%	0%	0%
24	3%	0%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%	0%

Source: CRS analysis of PPACA (P.L. 111-148).

Employer Premium Contribution \$20,000 x 23% Tax Credit = \$4,600 (Tax Credit in Dollars)

*Illustration developed by Manatt Health Solutions