



# ACA OVERVIEW

Provided by The Wladis Companies, Inc.

## Health Care Tax Credit for Small Employers

The Affordable Care Act (ACA) amended the Internal Revenue Code (Code) to create a tax credit for certain small employers that provide health care coverage to their employees. The ACA's small employer health care tax credit, which is contained in Code Section 45R, became effective with the 2010 taxable year.

This ACA Overview describes the small employer health care tax credit. Please contact The Wladis Companies, Inc. for more information, including detailed rules for eligibility and calculating and claiming the credit.

### LINKS AND RESOURCES

- IRS Q&As on the small employer health care tax credit are available on the [IRS website](#)
- Additional guidance is available in [Notices 2010-44](#) and [2010-82](#), and on the IRS's [Small Business Health Care Tax Credit webpage](#)
- On June 30, 2014, the IRS issued a [final rule](#) on the ACA's small employer health care tax credit. This rule finalized a [proposed rule](#) from Aug. 23, 2013, with only a few changes and clarifications. The final rule applies for taxable years beginning after 2013, though employers could rely on the proposed rule for taxable years beginning after 2013 and before 2015.
- A [Small Business Health Care Tax Credit Estimator](#) and an [FTE Calculator](#) are available on HealthCare.gov.

This ACA Overview 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.

### HIGHLIGHTS

#### ELIGIBLE EMPLOYERS

To be eligible for the health care tax credit, an employer must:

- Have fewer than **25 full-time equivalent employees** (FTEs);
- Pay **average annual wages of less than \$51,800 for 2016** per FTE; and
- Pay **at least half** of employee health insurance premiums.

#### CHANGES FOR 2014

Although the health care tax credit is available for 2014 and later, a few key aspects changed beginning in 2014.

- Employers must purchase coverage for their employees through a SHOP Exchange to be eligible;
- The maximum credit increased to 50 percent of premiums paid (35 percent for tax-exempt small employers); and
- The credit is only available to an employer for two consecutive tax years.



THE WLADIS COMPANIES, INC.

## ELIGIBLE EMPLOYERS

In general, to be eligible for the ACA's small employer health care tax credit, an employer must:

- Have fewer than **25 full-time equivalent employees (FTEs)**;
- Pay **average annual wages of less than \$50,000 (\$50,800 for 2014; \$51,600 for 2015; \$51,800 for 2016)** per FTE; and
- Pay **at least half** of employee health insurance premiums.

## CHANGES FOR 2014

The small employer health care tax credit continues to be available for 2014 and later taxable years. However, a few key aspects of the tax credit changed beginning in 2014.

Effective  
for 2014:

- Employers must purchase health insurance coverage for their employees through the Exchange's Small Business Health Options Program (SHOP) to be eligible;
- The maximum credit increases to 50 percent of premiums paid for taxable small employers and 35 percent of premiums paid for tax-exempt small employers; and
- The credit is only available to an employer for two consecutive taxable years.

## IMPACT OF CREDIT ON SMALL EMPLOYERS

For tax years 2010 through 2013, the maximum health care tax credit was **35 percent** of premiums for small business employers and **25 percent** of premiums for small tax-exempt employers. **For 2014 and later tax years, the maximum credit was increased to 50 percent for small business employers, and 35 percent for small tax-exempt employers.**

For tax years before 2014, for employers with more than 10 FTEs or if the average wage was more than \$25,000, the amount of the credit received was less than that of employers with fewer than 10 FTEs or an average wage of less than \$25,000. The average wage has been adjusted for inflation to \$25,400 for 2014, \$25,800 for 2015 and \$25,900 for 2016.

**Example:** If you are a small employer that pays \$50,000 per year toward workers' health care premiums and you qualify for a 15 percent credit, you can save \$7,500 by using the health care tax credit. If you save \$7,500 per year from tax year 2010 through 2013, you will have a total savings of \$30,000. If, in 2014, you qualify for a slightly larger credit (for example, 20 percent), your savings would go from \$7,500 per year to \$12,000 per year.

Small business employers that did not owe tax during the year can carry the credit back or forward to other tax years. Also, since the amount of the health insurance premium payments are more than the total credit, eligible small businesses can still claim a business expense deduction for the premiums in excess of the credit.

The credit is refundable for small tax-exempt employers. This means that, even if a tax-exempt employer does not have any taxable income, it may be eligible to receive the credit as a refund so long as it does not exceed the employer's income tax withholding and Medicare tax liability.

## **RULES FOR CLAIMING CREDIT**

To be eligible for the health care tax credit, an employer must cover at least 50 percent of the cost of single (not family) health insurance coverage for its employees. Starting in 2014, an employer must pay a uniform percentage (not less than 50 percent) of the self-only premium for each employee enrolled in a qualified health plan through a SHOP Exchange.

An employer must also have fewer than 25 FTEs and pay average wages of less than \$50,000 per year. For 2014, an employer must pay average annual wages of \$50,800 or less per FTE to be eligible for the health care tax credit. For 2015, an employer must pay average annual wages of \$51,600 or less per FTE to be eligible for the health care tax credit. For 2016, an employer must pay average annual wages of \$51,800 or less per FTE to be eligible for the health care tax credit.

- Under the rules for counting FTEs, two half-time workers count as one full-time employee. For example, 20 half-time employees are equivalent to 10 full-time workers. That makes the number of FTEs 10 not 20.
- Average annual wages are calculated by adding up the total wages paid by the employer during the tax year, and dividing that amount by the number of FTEs for the year. For example, if you are a small employer that has 10 FTEs and paid total wages of \$200,000 during 2014, the average annual wage would be \$20,000 (\$200,000 divided by 10).

Starting in 2014, to take advantage of the credit, small employers must buy coverage through one of the Exchange's SHOPS. The credit can be claimed for any two consecutive taxable years beginning in 2014 (or beginning in a later year) through the SHOP.

Employers must use **IRS Form 8941**, Credit for Small Employer Health Insurance Premiums, to calculate the credit. A small business should include the amount as part of the general business credit on its income tax return. A tax-exempt organization should include the amount on IRS Form 990-T, *Exempt Organization Business Income Tax Return*. **An employer must file the Form 990-T in order to claim the credit, even if it does not ordinarily file this form.**

*Source: Internal Revenue Service*