

On March 23, 2010 President Obama signed into law the Patient Protection and Affordable Care Act of 2010 (PPACA), which created a new tax credit for small businesses that provide health insurance coverage to their employees. The following FAQs provide information on this provision of health reform and how it will affect small businesses.

1. What is the small business health care tax credit?

The recently enacted health reform package ("Patient Protection and Affordable Care Act") contains a provision that makes available to certain small businesses a health care tax credit designed to help offset the costs of providing health insurance to their employees.

2. When can a small business begin claiming the small business health care tax credit?

Eligible employers may begin claiming the credit in the 2010 taxable year and can receive it by claiming it on their annual income tax return. Premiums paid before the law was enacted can even be counted towards the credit.

3. Which employers are eligible for the small business health care tax credit?

Small businesses and small tax-exempt organizations are eligible if they generally employ fewer than 25 full-time equivalent workers for the tax year (more if you have part-time employees) and pay average annual wages below \$50,000. In addition, the employer must pay at least 50 percent of their employees' health insurance premiums.

4. Are tax-exempt employers eligible for the small business health care tax credit?

Yes, but the credit amount is lower and the rules for calculating the credit differ between tax-exempt entities and taxable small businesses.

5. How much is the small business health care tax credit worth?

Qualified small businesses may be eligible to receive a credit worth up to 35 percent of the premium paid by the employer (25 percent for tax-exempt organizations) up to 2014. Beginning in 2014, the credit will be worth up to 50 percent for small businesses and 35 percent for tax-exempt entities.

6. Are premiums paid by employees counted in calculating the small business health care tax credit? No. Only premiums paid by the employer count in calculating the amount of the credit.

7. Does a state tax credit or premium subsidy I receive reduce my federal health care tax credit? No. Small businesses can receive both a federal and state tax credit or premium subsidy for providing health insurance to their employees.

8. What can I use the small business health care tax credit for?

If the small business has no taxable income in the year in which it wishes to receive the credit, it may carry the credit forward for 20 years or backwards one year (after 2010). Tax-exempt organizations may use the credit to offset withholding and Medicare taxes that they owe on behalf of their employees.

9. Will the small business health care tax credit be administered by The Connor Group? No. It is administered by the Internal Revenue Service (IRS).

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