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IRS Issues More Guidance on Small Business Health Coverage Tax Credit

IRS has issued detailed [guidance](#) on the small employer health insurance credit created by the Affordable Care Act. The guidance provides information on the new credit, including which employers qualify for the credit and which employees may be counted for credit purposes.

The tax credit is available for certain small employers that provide health care coverage to their employees, effective with tax years beginning in 2010. Small employers may be eligible for tax credits to offer health insurance coverage for the first time or maintain coverage they already have. Millions of small employers received [postcards](#) from the IRS beginning in April that alerted them to the new small business health care tax credit and encouraged them to check their eligibility. Even if you didn't receive a postcard, your business may still be eligible.

Eligibility Rules

- A qualifying employer must cover at least 50% of the cost of health care coverage for some of its workers based on the single rate.
- 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).
- A qualifying employer must pay average annual wages below \$50,000.
- Both taxable (for profit) and tax-exempt firms qualify.

Amount of Credit

- The credit is worth up to 35% of a small business' premium costs in 2010 (25% for tax-exempt employers). On January 1, 2014, this rate increases to 50% percent (35% for tax-exempt employers).
- 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.

To determine if your small business or tax exempt organization qualifies for the small business health care tax credit, follow the three simple steps on the [IRS fact sheet](#). IRS scenarios illustrate [how the credit applies](#) to employers in different circumstances.

Claiming the Credit

Small employers, whether businesses or tax-exempt organizations, will use new [Form 8941](#), Credit

for Small Employer Health Insurance Premiums, to calculate the small business health care tax credit. Small businesses will include the amount of the credit as part of the general business credit on their income tax returns. Tax-exempt organizations will include the amount of the credit on Form 990-T, Exempt Organization Business Income Tax Return. Form 990-T (draft available for viewing) will be revised for the 2011 filing season to enable eligible tax-exempt organizations — even those that owe no tax on unrelated business income — to claim the small business health care tax credit.

More information about the credit and answers to [frequently asked questions](#) are available on the [IRS web page](#).

Employers are advised to continue to monitor health reform developments. Should you have questions about this or any aspect of federal health insurance reform, contact your Conner Strong account representative toll free at 1-877-861-3220. For a complete list of Legislative Updates issued by Conner Strong, visit our online [Resource Center](#).

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