

Small Business Health Care Tax Credit FAQs

Small employers that pay at least half of the premiums for employee health insurance coverage under a qualifying arrangement may be eligible for the small business health care tax credit. The credit is specifically targeted to small businesses and tax-exempt organizations that primarily employ 25 or fewer workers with average income of \$50,000 or less (\$50,800 for calendar year 2014 and \$51,600 for tax year 2015).

Q. Which employers are eligible for the small employer health care tax credit?

A. Small employers that provide health care coverage to their employees and that meet certain requirements (“qualified employers”) generally are eligible for a federal income tax credit for health insurance premiums they pay for certain employees. In order to be a qualified employer, (1) the employer must have no more than 25 full-time equivalent employees (“FTEs”) for the tax year, (2) the average annual wages of its employees for the year must not exceed \$50,000 per FTE (\$50,800 for calendar year 2014 and \$51,600 for tax year 2015), and (3) the employer must pay the premiums under a “qualifying arrangement.”

Q. Can a tax-exempt organization be a qualified employer?

A. Yes. The same definition of qualified employer applies to an organization described in Code section 501(c) that is exempt from tax under Code section 501(a). However, special rules apply in calculating the credit for a tax-exempt qualified employer. An employer that is an agency or instrumentality of the federal government, or of a state, local or Indian tribal government, is not a qualified employer unless it is an organization described in Code section 501(c) that is exempt from tax under Code section 501(a).

Q. What is the maximum credit for a qualified employer (other than a tax-exempt employer)?

A. For tax years 2010 through 2013, the maximum credit is 35 percent of premiums paid for qualified small business employers. For tax years beginning in 2014 or later, the maximum credit increases to 50 percent.

Q. What is the maximum credit for a tax-exempt qualified employer?

A. For tax years 2010 through 2013, the maximum credit for a tax-exempt qualified employer is 25 percent of the employer’s premium expenses that count towards the credit. For tax years beginning in 2014 or later, the maximum credit increases to 35 percent of the employer’s premium expenses. The credit is refundable for tax-exempt employers. However, the amount of the credit cannot be more than the total amount of income and Medicare tax (i.e., hospital insurance) the employer is required to withhold from employees’ wages for the year and the employer share of Medicare tax on employees’ wages for the year.

Q. How does an employer (other than a tax-exempt employer) claim the small employer health care tax credit?

A. An employer (other than a tax-exempt employer) claims the credit on the employer’s annual income tax return, with an attached Form 8941 showing the calculation of the credit.

Q. How does a tax-exempt employer claim the small employer health care tax credit?

A. A tax-exempt employer described in Code section 501(c) that is exempt from tax under Code section 501(a) claims the refundable credit by filing a Form 990-T with an attached Form 8941 showing the calculation of the claimed credit. A tax-exempt employer is not eligible to claim the credit unless it is an organization described in Code section 501(c) that is exempt from tax under Code section 501(a).