

Small Business Tax Credit



Tax Credits Make Providing Employee Insurance More Affordable

The Patient Protection and Affordable Care Act includes a small-business health care tax credit to help make employee health insurance more affordable. Employers may qualify for a tax credit to help offset the cost of enrolling their employees in health insurance.

By purchasing health insurance through the Covered California™ Small Business Health Options Program (SHOP), employers with one to 50 eligible employees can choose from a range of health plans without the burden of additional administrative duties. Covered California's SHOP is streamlining the process of choosing health plans and enrolling employees so business owners can focus on their businesses.

Tax credits are available for tax year 2013 and become more generous starting in 2014.



Qualifying for the Tax Credit

Small businesses are eligible for a health care tax credit if they have fewer than 25 full-time-equivalent employees for the tax year, pay employees an average of less than \$50,000 per year and contribute at least 50 percent toward employees' premium cost. This contribution requirement also applies to add-on coverage, such as vision, dental and other limited-scope coverage.

Employers with 10 or fewer full-time-equivalent employees with wages averaging \$25,000 or less are eligible for the maximum amount of tax credits. Nonprofit or tax-exempt employers must meet the same criteria as other small businesses, and their tax credits will be somewhat lower.

Covered California's SHOP will allow employers to compare a number of qualified, competing health insurance plans from private insurance companies. Through SHOP, small businesses will be able to offer different plans to their employees, something that few small employers have been able to do easily until now.

Determining Tax Credit Amount and Duration

The tax credit employers receive will depend on a number of factors, including the number of full-time-equivalent employees and the amount the employer contributes toward insurance premiums. Tax credits are available for tax year 2013 and become more generous starting in 2014. Tax credits are available for a total of two consecutive years.



The table below illustrates the two phases of tax credits to help employers (including tax-exempt employers) with fewer than 25 full-time-equivalent employees cover premium costs.

| | Tax Year(s) | Maximum Tax Credit as a Percentage of Premium Expenses | Maximum Tax Credit for Tax-Exempt Organizations as a Percentage of Premium Expenses |
|-----------|------------------|--|---|
| Phase One | 2010–2013 | 35% | 25% |
| Phase Two | Starting in 2014 | 50% | 35% |

The first phase covers tax years 2010-2013. During that time, a sliding-scale tax credit of up to 35 percent of the employer's eligible premium expenses is available. For tax-exempt employers, the same employee and wage requirements apply, and the maximum tax credit is 25 percent of eligible premium expenses.

The second phase begins in tax year 2014, when the maximum tax credit increases to 50 percent of premium

expenses, and the maximum credit for tax-exempt employers increases to 35 percent. Small businesses must purchase health insurance through Covered California's SHOP to be eligible for tax credits offered in 2014.

The amount of the tax credit cannot exceed the total income and Medicare tax the employer is required to withhold from employees' annual wages, plus the employer's share of the Medicare tax.

Example of Small Business Receiving Tax Credit for Health Insurance: Beauty Shop with 10 Full-Time-Equivalent Employees

| | |
|---------------------------------------|---|
| Employees | 10 full-time-equivalent employees |
| Wages | \$250,000 total , or an average of \$25,000 per employee |
| Employee Health Insurance Cost | \$70,000 |
| 2013 Tax Credit | \$24,500 (35%) |
| 2014 Tax Credit | \$35,000 (50%) |

For more information, contact your tax professional or visit our website at www.CoveredCA.com, or call (877) 453-9198.



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