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NEW HEALTH CARE TAX CREDIT FOR EMPLOYERS

In March, the Patient Protection and Affordable Care Act was approved by Congress and President Obama signed it into law. The Act includes a credit, which takes effect this year, to encourage small employers to offer health care insurance coverage for the first time or maintain coverage they already have. The credit is targeted to help small businesses and tax-exempt organizations that primarily employ low to moderate-income workers. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees in 2010.

For tax years 2010 to 2013, eligible employers could qualify for a credit up to 35% of premiums paid in 2010 (for businesses) or 25% of premiums paid (for tax-exempt groups). In 2014, this rate increases to 50% and 35%, respectively. The maximum credit goes to smaller employers—those with 10 or fewer full-time equivalent (FTE) employees—paying annual average wages of \$25,000 or less. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, business that use part-time help may qualify even if they employ more than 25 individuals. The credit is completely phased out for employers that have 25 FTEs or more or that pay average wages of \$50,000 per year or more.

The credit is claimed as part of the general business credit starting with the 2010 income tax return they file in 2011. The IRS has not yet announced how tax-exempts will claim the credit.

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