

Small Business Tax Credit under PPACA

By Malinda Shafman

PPACA refers to the Patient Protection and Affordable Care Act, passed by Congress and signed by President Obama on March 23, 2010. This article will focus on one provision of that law – the tax credit provided to certain small employers that provide health insurance coverage to their employees. This credit is effective with tax years beginning January 2010.

What are the eligibility rules?

- A qualifying employer must cover at least 50% of the cost of health insurance coverage for its workers based on the single employee 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.

What's the amount of the credit?

For taxable businesses with up to 10 employees and average annual wages less than \$25,000 the tax credit is 35% in 2010-2013. The credit phases down for taxable businesses with up to 25 employees and average annual wages less than \$50,000. The credit is available starting in 2014 only for small businesses purchasing health insurance through the state exchanges.

How do you calculate the credit?

Only premiums paid by the employer for qualifying health, dental and vision insurance are counted in calculating the credit. The credit is available on all qualifying premiums paid in 2010.

In addition, the amount of an employer's premium payments that count is capped by the premium payments the employer would have made under the same arrangement if the average premium for the small group market in the State in which the employer offers coverage were substituted for the actual premium. In Montana that annual cap is \$4772 single rate and \$10,212 family rate for 2010. If the employer pays only a portion of the premium, the premium amount that counts for purposes of the credit is the same portion.

How is the number of Full Time Equivalent employees (FTEs) determined for purposes of the credit?

The number of an employer's FTEs is determined by dividing (1) the total hours for which the employer pays wages to employees during the year (but not more than 2,080 hours for any employee) by (2) 2,080. The result, if not a whole number, is then rounded to the next lowest whole number. Generally, seasonal workers, business owners, and family members of a business owner are not counted for purposes of determining FTEs.

How is the amount of average annual wages determined?

This amount is determined by first dividing (1) the total wages paid by the employer to employees during the employer's tax year by (2) the number of the employer's FTEs for the year. The result is then rounded down to the nearest \$1,000 (if not otherwise a multiple of \$1,000). For this purpose, wages means wages as defined for FICA purposes (without regard to the wage base limitation).

This article explains only some of the nuances concerning the small business tax credit provision of PPACA. For more information contact your tax advisor or access the IRS website at: www.irs.gov.