

FRANZEN & FRANZEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

April 23, 2013 – Small Business Health Care Credit

If you are a small employer with fewer than 25 full-time equivalent employees, pay an average wage of less than \$50,000 a year, and pay at least half of your employee health insurance premiums then you may be eligible for the Small Business Health Care Tax Credit.

For tax years 2010 through 2013, the maximum credit is 35 percent for small business employers and 25 percent for small tax-exempt employers such as charities. An enhanced version of the credit will be effective beginning Jan. 1, 2014. The IRS is expected to issue additional information about the enhanced version as it becomes available. In general, on Jan. 1, 2014, the rate will increase to 50 percent and 35 percent, respectively.

Here's what this means for you. If you pay \$50,000 a year toward workers' health care premiums – and if you qualify for a 15 percent credit, you save \$7,500. If, in 2014, you qualify for a slightly larger credit, say 20 percent, your savings go from \$7,500 a year to \$12,000 a year.

Even if you are a small business employer who does not owe tax for the year, you can carry the credit back or forward to other tax years. Also, since the amount of the health insurance premium payments are more than the total credit, eligible small businesses can still claim a business expense deduction for the premiums in excess of the credit. That's both a credit and a deduction for employee premium payments.

There is good news for small tax-exempt employers too. The credit is refundable, so even if you have no taxable income, you may be eligible to receive the credit as a refund so long as it does not exceed your income tax withholding and Medicare tax liability.

This credit was provided by the Patient Protection and Affordable Care (PPAC) Act as part of a design to reform the United States health care system and encourage employer's shared responsibility. If you have any questions regarding this credit or any other provision of PPAC Act, please call our office.