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SPECTRA INSIGHT



For More Details on the Health Care Reform Law:

- For more information on the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 go to:
- <http://www.whitehouse.gov/health-care-meeting/questions/small-business>



Small Business Health Care Tax Credit

Health reform legislation signed by President Obama includes a Small Business Health Care Tax Credit to help small businesses afford the cost of covering their workers.

Key Facts about the Small Business Health Care Tax Credit

The tax credit, which is effective immediately, can cover up to 35 percent of the premiums a small business pays to cover its workers. In 2014, the rate will increase to 50 percent.

The Congressional Budget Office estimates that the tax credit will save small businesses \$40 billion by 2019.

Both small for-profit businesses and small not-for-profit organizations are eligible.

Key Elements

Available Immediately. The credit is effective January 1, 2010. As a result, small businesses that provide health care for their workers will receive immediate help with their premium costs, and additional firms that initiate coverage this year will get a tax cut as well.

Broad Eligibility. The Council of Economic Advisors estimates that 4 million small businesses are eligible for the credit if they provide health care to their workers. Qualifying firms must have less than the equivalent of 25 full-time workers (e.g., a firm with fewer than 50 half-time workers would be eligible), pay average annual wages below \$50,000, and cover at least 50 percent of the cost of health care coverage for their workers.

Substantial Benefit. The credit is worth up to 35 percent of a small business's premium costs in 2010. On January 1, 2014, this rate increases to 50 percent.

Non-Profits Eligible. Tax-exempt organizations are eligible for a 25 percent tax credit in 2010. In 2014, this rate increases to 35 percent. (The credit rates are lower for non-profits to ensure that the value of the credit is approximately equal to that provided to for-profit firms that cannot claim a tax deduction for the amount of the credit claimed.)

Gradual Phase-Outs. The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

Premium Cost Eligibility. To avoid an incentive to choose a high-cost plan, an employer's eligible contribution is limited to the average cost of health insurance in that state.



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Small Business Health Care Tax Credit: Four Cases

Here is a look at how four hypothetical businesses might benefit from the Small Business Health Care Tax Credit that becomes effectively immediately under health care reform.

Example 1: Main Street Mechanic - Auto Repair Shop with 10 Employees

- Employees: 10
- Wages: \$250,000 or \$25,000 per worker
- Employer Health Care Costs: \$70,000

2010 Tax Credit: \$24,500 (35% credit) 2014 Tax Credit: \$40,000 (50% credit)

Example 2: Downtown Diner - Restaurant with 40 Part-Time Employees

- Employees: 40 half-time (equivalent of 20 full-time)
- Wages: \$500,000 or \$25,000 per full-time equivalent worker
- Employer Health Care Costs: \$240,000

2010 Tax Credit: \$28,000 (35% credit with phase-out) 2014 Tax Credit: \$40,000 (50% credit with phase-out)

Example 3: 1st Street Family Services - Foster Care Non-Profit with 9 Employees

- Employees: 9
- Wages: \$198,000 or \$22,000 per worker
- Employer Health Care Costs: \$72,000

2010 Tax Credit: \$18,000 (25% credit) 2014 Tax Credit: \$25,200 (35% credit)

Example 4: Acme Air Conditioning, LLC- Manufacturing Company with 12 Employees

- Employees: 12
- Wages: \$420,000 or \$35,000 per full-time equivalent worker
- Employer Health Care Costs: \$90,000

2010 Tax Credit: \$14,700 (35% credit with phase-out) 2014 Tax Credit: \$21,000 (50% credit with phase-out)



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