



Beginning in 2010, the Patient Protection and Affordable Care Act (PPACA) provides certain small businesses with a temporary tax credit to offset a portion of health insurance costs.

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- The credit is a % of employer premium contributions.**
- The credit is complex.**
- Several factors limit the credit's value.**
- The business must pay at least 50% of the premium.**
- More employees lower the %.**
- Higher wages lower the %.**
- Part-timers lower the %.**
- No credits for the owner's family members.**
- The credit is tied to the "average" business.**
- The credit is temporary.**
- The number of businesses claiming the credit is small.**
- The dollar amounts are small.**
- Taxpayers are making errors in calculating the credit.**
- The credit is unlikely to induce businesses to offer health insurance.**
- Use your judgment on whether to apply.**

How Is The Credit Calculated? The credit is stated as a percentage of the business's contribution to employee health insurance premiums. Before 2014, the maximum percentage is 35%. After 2014, the maximum is 50%, but only on policies purchased in the new exchanges.

An example of the credit calculation appears on the [flip side of this CribSheet](#), along with a table showing the percentages as function of number of employees and average wages. NFIB's credit calculator is at <http://www.nfib.com/issues-elections/healthcare/credit-calculator>.

What Are The Limitations? Many or most businesses who receive the credit will receive less than the 35%/50% maximum. In addition, the credit only lasts for a few years.

To qualify for the credit, the business must pay at least 50% of the health insurance premiums for employees.

The percentage phases out from 35%/50% to 0% as the number of employees rises from 10 to 25. As explained below, members of the owner's family are not counted, but part-timers are. Also, if an owner has several businesses, they may be combined for purposes of this calculation.

The percentage faces out from 35%/50% to 0% as the average wage rises from \$25,000 to \$50,000. Wages of members of the owner's family members are not included.

Part-timers' hours are aggregated into full-time equivalents (FTEs) for calculating the number of employees. To calculate FTEs, divide the number of annual part-time employee-hours by 2,080.

In calculating the number of employees, wages paid, and insurance premiums paid, members of the owner's family are excluded. The IRS defines family to include a broad range of relations (e.g., foster child, step-sister, spouse of brother-in-law, certain cousins).

The percentage credit is applied *either* to the employer's share of the insurance premiums or to the *average* business's contribution to premiums (in that geographic region), *whichever is less*. Hence, businesses are effectively penalized for offering more-generous-than-average coverage.

The 35% maximum credit is relevant for 2010-2013. The 50% maximum credit is good for two years starting in 2014, but only on policies purchased in the new Small Business Health Options Program (SHOP) health insurance exchanges.

How Successful Is The Credit? The General Accountability Office (GAO) reported that in 2010, only 170,300 small employers claimed the health insurance tax credit. The White House had argued that 4.4 million businesses were potentially eligible for the credit.

The 170,300 businesses claiming the credit received \$468 million – 23% of the \$2 billion in credits originally forecast by the Congressional Budget Office.

The U.S. Treasury reported that "both taxpayers and tax practitioners are making mistakes" in calculating the credit on IRS forms.

The credit was supposed to reduce health insurance costs for small businesses and encourage those not offering coverage to begin doing so. According to GAO figures, the average credit per business was \$2,748. While the credit offers a windfall gain to some businesses – especially very small low-wage businesses – it is unlikely that it has much impact on the number of firms offering insurance.

What Should A Business Do? NFIB encourages businesses to talk with their accountants about whether to seek the credit. If the credit seems worthwhile, they should file for it. They should keep in mind that in some cases, filing for the credit requires significant time and expense.

How a hypothetical business would calculate the tax credit. The [previous page](#) describes the small business health insurance tax credit. This business begins by compiling data to construct the six numbers marked below with asterisks. The remaining numbers are calculated from those six.

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| | | |
|---|--|-----------------|
| Count full-time employees (FTs): There are 16, but don't count the owner, his sister, or his niece's husband. | $16^* - 3^* =$ | 13 |
| Calculate full-time equivalents (FTEs): Part-timers logged 6,400 hours. Subtract 2,100 from the owner's grandmother and brother. Divide by 2,080 (40 hrs/week). Round. | $(6,400^* - 2,100^*) / 2,080 =$ | 2 |
| Calculate relevant number of employees: Add FTs and FTEs | $13 + 2 =$ | 15 |
| Tabulate total wages paid for the year | | \$440,175* |
| Calculate average wage per employee | $\$440,175 / 15 =$ | \$29,345 |
| Maximum applicable percentage for 2010 – 2013 (from the law) | | 35% |
| Reduce percentage for employee count: The percentage shrinks above 10 employees | $11.67\% = 35\% \times (15-10) / 15 =$ | 11.67% |
| Reduce percentage for average wage: The percentage shrinks above \$25,000 | $35\% \times (\$29,000 - \$25,000) / \$25,000 =$ | 5.60% |
| Calculate applicable percentage | $35\% - 11.67\% - 5.60\% =$ | 17.73% |
| Tabulate total insurance premiums paid by the employer (not for family members) | | \$36,000* |
| Calculate the credit | $17.73\% \times \$36,000 =$ | \$6,384 |

In the table above, a combination of 15 employees and \$29,345 in average wages yields an applicable credit percentage of 17.73%. The table below shows the applicable percentages for different combinations of employee count and average wage. In the chart below, you can see the 17.73% from above, rounded to 18%.

| | | NUMBER OF EMPLOYEES | | | | | | | | | | | | | | | |
|---|---------------|---------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|----|----|----|----|----|
| | | 1-10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| AVERAGE EMPLOYEE WAGE (not including owner) | \$0 - \$25000 | 35% | 33% | 30% | 28% | 26% | 23% | 21% | 19% | 16% | 14% | 12% | 9% | 7% | 5% | 2% | |
| | \$26,000 | 34% | 31% | 29% | 27% | 24% | 22% | 20% | 17% | 15% | 13% | 10% | 8% | 6% | 3% | 1% | |
| | \$27,000 | 32% | 30% | 28% | 25% | 23% | 21% | 18% | 16% | 14% | 11% | 9% | 7% | 4% | 2% | | |
| | \$28,000 | 31% | 28% | 26% | 24% | 21% | 19% | 17% | 14% | 12% | 10% | 7% | 5% | 3% | | | |
| | \$29,000 | 29% | 27% | 25% | 22% | 20% | 18% | 15% | 13% | 11% | 8% | 6% | 4% | 1% | | | |
| | \$30,000 | 28% | 26% | 23% | 21% | 19% | 16% | 14% | 12% | 9% | 7% | 5% | 2% | | | | |
| | \$31,000 | 27% | 24% | 22% | 20% | 17% | 15% | 13% | 10% | 8% | 6% | 3% | 1% | | | | |
| | \$32,000 | 25% | 23% | 21% | 18% | 16% | 14% | 11% | 9% | 7% | 4% | 2% | | | | | |
| | \$33,000 | 24% | 21% | 19% | 17% | 14% | 12% | 10% | 7% | 5% | 3% | | | | | | |
| | \$34,000 | 22% | 20% | 18% | 15% | 13% | 11% | 8% | 6% | 4% | 1% | | | | | | |
| | \$35,000 | 21% | 19% | 16% | 14% | 12% | 9% | 7% | 5% | 2% | | | | | | | |
| | \$36,000 | 20% | 17% | 15% | 13% | 10% | 8% | 6% | 3% | 1% | | | | | | | |
| | \$37,000 | 18% | 16% | 14% | 11% | 9% | 7% | 4% | 2% | | | | | | | | |
| | \$38,000 | 17% | 14% | 12% | 10% | 7% | 5% | 3% | | | | | | | | | |
| | \$39,000 | 15% | 13% | 11% | 8% | 6% | 4% | 1% | | | | | | | | | |
| | \$40,000 | 14% | 12% | 9% | 7% | 5% | 2% | | | | | | | | | | |
| | \$41,000 | 13% | 10% | 8% | 6% | 3% | 1% | | | | | | | | | | |
| | \$42,000 | 11% | 9% | 7% | 4% | 2% | | | | | | | | | | | |
| | \$43,000 | 10% | 7% | 5% | 3% | | | | | | | | | | | | |
| | \$44,000 | 8% | 6% | 4% | 1% | | | | | | | | | | | | |
| \$45,000 | 7% | 5% | 2% | | | | | | | | | | | | | | |
| \$46,000 | 6% | 3% | 1% | | | | | | | | | | | | | | |
| \$47,000 | 4% | 2% | | | | | | | | | | | | | | | |
| \$48,000 | 3% | | | | | | | | | | | | | | | | |
| \$49,000 | 1% | | | | | | | | | | | | | | | | |
| \$50,000 | | | | | | | | | | | | | | | | | |

17.73% (rounded to 18%)



PPACA: Small Business Health Insurance Tax Credit

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