

Published by
*Employee
Benefit News*
April 6, 2010

IRS offers guidance on tax credits in health reform law

By Lydell C. Bridgeford

The Internal Revenue Service recently launched [a new Web page](#) that provides guidance on tax credits in the new health reform law for small employers and tax-exempt organizations that provide health insurance coverage.

Under the new law, the maximum credit is 35% of premiums paid in 2010 by eligible small businesses and 25% of premiums paid by eligible employers that are tax-exempt organizations. In 2014, this maximum credit jumps to 50% of premiums paid by eligible small employers and 35% of premiums paid by eligible employers that are tax-exempt organizations.

“This credit provides a real boost to eligible small businesses by helping them afford health coverage for their employees,” explains IRS Commissioner Doug Shulman. “We urge small businesses and tax-exempt employers to look closely at this important tax break — which is already effective — to see if they qualify,” he adds.

The online portal helps small-business owners determine if they are eligible for the tax credit and outlines the financial rewards earned by taking advantage of the credit. In addition, users can review a [“Frequently Asked Question”](#) section that discusses, in part, the calculation of the credit and how to claim the credit. The Web page also includes a section that [illustrates scenarios](#) on how the credit applies to employers in different circumstances.

The government defines a small employer as one with fewer than 25 full-time equivalent employees paying wages averaging less than \$50,000 per employee per year. However, “because the eligibility formula is based in part on the number of FTEs, not the number of employees, many businesses will qualify even if they employ more than 25 individual workers,” IRS officials report. The maximum credit goes to smaller employers with 10 or fewer FTEs that pay annual average wages of \$25,000 or less.

The tax credit on health-insurance premiums was created to encourage small employers to provide health insurance coverage for the first time or maintain coverage they already have, according to IRS officials. The credit is also aimed at small businesses and tax-exempt organizations that primarily employ low and moderate income workers.

IRS officials state that “eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011.”