

# Health Care Reform (PPACA) Update

## IRS Releases Guidance On Small Business Tax Credit

May 17, 2010

The Internal Revenue Service issued today new guidance to make it easier for small businesses to determine whether they are eligible for the new health care tax credit under the Affordable Care Act and how large a credit they will receive. The guidance makes clear that small businesses receiving state health care tax credits may still qualify for the full federal tax credit. Additionally, the guidance allows small businesses to receive the credit not only for regular health insurance but also for add-on dental and vision coverage.

Notice 2010-44 (<http://www.irs.gov/pub/irs-drop/n-10-44.pdf>) provides detailed guidelines, illustrated by more than a dozen examples, to help small employers determine whether they qualify for the credit and estimate the amount of the credit. The notice also requests public comment on issues that should be addressed in future guidance.

Included in the Affordable Care Act approved by Congress in March and signed into law by the President, the small business health care tax credit, which is in effect this year, is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees in 2010. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ moderate- and lower-income workers.

For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. The maximum credit goes to smaller employers -- those with 10 or fewer full-time equivalent (FTE) employees -- paying annual average wages of \$25,000 or less. The credit is completely phased out for employers that have 25 FTEs or more or that pay average wages of \$50,000 per year or more. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals.

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. For tax-exempt organizations, the IRS will provide further information on how to claim the credit.

For a copy of the step-by-step guide, go to:  
[http://www.irs.gov/pub/irs-utl/3\\_simple\\_steps.pdf](http://www.irs.gov/pub/irs-utl/3_simple_steps.pdf)

For a copy of the answers to frequently asked questions, go to:

<http://www.irs.gov/newsroom/article/0,,id=220839,00.html>

All are found on the Affordable Care Act page:

<http://www.irs.gov/newsroom/article/0,,id=220809,00.html>

For additional information on Health Care Reform, please visit

[www.midamgroup.com/html/healthcare-reform.htm](http://www.midamgroup.com/html/healthcare-reform.htm)

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