

## ADDITIONAL BACKGROUND ON THE 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.*
- *Last month, the IRS sent out over 4 million postcards to employers that may qualify to ensure that they know about the credit and how to claim it.*

### 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.
- **Firms Can Claim Credit for Up to 6 Years.** Firms can claim the credit for 2010 through 2013 and for any two years after that.
- **Non-Profits Eligible.** Tax-exempt organizations are eligible for a 25 percent tax credit in 2010. In 2014, this rate increases to 35 percent.<sup>1</sup>
- **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 for small businesses in that state.
- **Extensive Outreach.** The Administration has initiated a nationwide educational campaign to ensure small businesses and tax preparers are informed about the credit. Last month the IRS sent out over 4 million postcards to employers that may qualify, and it is also spreading the word at over 1,000 tax workshops and small business forums, and through its email list of 175,000 tax professionals.

---

<sup>1</sup> 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.