



HCTT-2016-20: Understanding the Small Business Health Care Tax Credit

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IRS Tax Tips

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Understanding the Small Business Health Care Tax Credit

The Affordable Care Act includes the small business health care tax credit, which can benefit small employers who provide health coverage for their employees.

The small business health care tax credit benefits employers who:

- have fewer than 25 full-time equivalent employees
- pay an average wage of less than \$51,600 a year
- pay at least half of employee health insurance premiums

Here are some facts that will help you understand this tax credit and how it may affect your small business or tax-exempt organization:

- Credit percentage is 50 percent of employer-paid premiums; for tax-exempt employers, the percentage is 35 percent.
- Small employers may claim the credit for only two consecutive taxable years beginning in tax year 2014 and beyond.
- For 2015, the credit is phased out beginning when

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average wages equal \$25,800 and is fully phased out when average wages exceed \$51,600. The average wage phase out is adjusted annually for inflation.

- Generally, small employers are required to purchase a Qualified Health Plan from a Small Business Health Options Program Marketplace to be eligible to claim the credit. Transition relief from this requirement is available to certain small employers.

Small employers may still be eligible to claim the tax credit for tax years prior to 2014. Employers who were eligible to claim this credit for prior years – but did not do so – may consider if they are still eligible to amend prior year returns in order to claim the credit.

Gathering the following information will assist you in completing [Form 8941](#), *Credit for Small employer Health Insurance Premiums*.

- SHOP QHP documentation or letter of eligibility from SHOP, unless transition relief applies
- Numbers of full-time and part-time employees and numbers of hours worked
- Average annual wages for employees
- Employer premiums paid per employee, if applicable
- Relevant K-1s and other pass-through credit information
- Cost of coverage for each employee
- Payroll tax liability – for tax-exempt organizations only
- Pass-through credit info – for K-1s of other small employers

For more information about the Affordable Care Act visit IRS.gov/aca.

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