



IRS Tax Tip 2016-56: The Small Business Health Care Tax Credit: Seven Tax Tips for Employers

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IRS Tax Tips

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The Small Business Health Care Tax Credit: Seven Tax Tips for Employers

Do you own a small business or run a tax-exempt organization with fewer than 25 full-time equivalent employees? If you do, the Small Business Health Care Tax Credit can help you provide insurance to your employees. You may be able to save on your taxes if you paid for at least half of their health insurance premiums. Here are seven tax tips about this credit:

- 1. Maximum Credit.** The maximum credit is 50 percent of premiums paid by small business employers. The maximum credit is 35 percent of premiums paid by small tax-exempt employers, such as charities.
- 2. Number of Employees.** You must have fewer than 25 full-time employees, or a combination of full-time and part-time employees. For example, two half-time employees equal one full-time employee for purposes of the credit.
- 3. Average Annual Wages.** For 2015, the average annual wages of your employees must have been

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less than \$52,000. The IRS will adjust this amount for inflation each year.

4. Half the Premiums. You must have paid a uniform percentage, at least 50%, of the cost of premiums for all enrolled employees.

5. Qualified Health Plan. Generally, you must have purchased a qualified health plan from a [Small Business Health Options Program, or SHOP, Marketplace](#). There are limited exceptions to this [requirement](#).

6. Two Year Limit. As of 2014, an eligible employer may claim the credit only for two consecutive taxable years.

7. Tax Forms to Use. Employers use [Form 8941](#), Credit for Small Employer Health Insurance Premiums, to calculate the credit. Small businesses employers claim the credit on the annual income tax return. Small tax-exempt employers claim it on [Form 990-T](#), Exempt Organization Business Income Tax Return.

If you are a small business employer and the credit is more than your tax liability for the year, you can carry the unused credit back or forward to other tax years. If you are a small tax-exempt employer, the credit is refundable, so even if you have no taxable income you may receive a refund (so long as it does not exceed your income tax withholding and Medicare tax liability for the year).

Each and every taxpayer has a set of fundamental rights they should be aware of when dealing with the IRS. These are your [Taxpayer Bill of Rights](#). Explore your rights and our obligations to protect them on IRS.gov.

Additional IRS Resources:

- [Understanding the Small Business Health Care Tax Credit](#)
- [Small Business Health Care Tax Credit and the SHOP Marketplace](#)

IRS YouTube Videos:

- *Small Business Health Care Tax Credit* – [English](#) | [Spanish](#) | [ASL](#)

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