

Three months ago, the President signed the Affordable Care Act into law. This law is reform that will cut costs and make coverage more affordable for families and small businesses. It's reform that begins to bring down our government's long-term structural deficits. It is reform that finally extends the opportunity to purchase affordable coverage to the millions who don't have it – and includes tough new consumer protections to guarantee greater stability, security, and control for the millions more who do.

Four million small business owners were informed last month that they could be eligible for a health care tax cut this year worth tens of thousands of dollars to help them cover their employees. With the end in mind of educating all small businesses about the ACA, the SBA will implement efforts as well.

Key Facts about New Guidance on the Small Business Health Care Tax Credit:

- *Provides detailed information to make it easier for small businesses to determine whether they are eligible and how large a credit they will receive.*
- *Resolves a number of key implementation issues in ways that allow employers to receive the maximum credit available under the law.*
- *Clarifies that a business's credit will not be reduced because the business also receives a health care tax credit or subsidy from a state.*
- *Allows small businesses to receive the credit not only for regular health insurance but also for add-on dental, vision, and other limited-scope health insurance coverage.*
- *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:

Detailed Guidance. To help small businesses make employee benefit decisions with full knowledge and to provide a clear incentive to offer health insurance coverage, new IRS Notice 2010-44 released today lays out detailed guidance on how a business can determine whether it is eligible and how large a credit it will receive.

No Reduction Due to State Credits. Responding to a number of taxpayer questions about the interaction of the credit with state-level health care tax credits and subsidies, the guidance announces that the new tax credit will not be reduced by a state health care tax credit or subsidy (except in limited circumstances to prevent abuse of the credit). In particular, an employer that receives such a state tax credit or subsidy will also receive the full federal credit based on its

entire contribution so long as the federal credit does not exceed the employer's net contribution. According to lists compiled by the National Conference of State Legislatures, about 20 states offer these benefits.¹

Dental and Vision Coverage Qualify. The guidance clarifies that small businesses can receive the credit not only for traditional health insurance coverage but also for add-on dental, vision, and other limited-scope coverage. The employer must meet the requirements for limited-scope coverage that are similar to those that apply for single coverage: the employer must offer to pay at least 50% of the premium.

Employers Can Choose Most Favorable Method of Determining Hours Worked. Because the tax credit's matching rate is highest for employers with 10 or fewer full-time equivalent employees (FTEs), the number of hours worked is an important factor in calculating the credit. The new guidance allows employers to choose among 3 different methods of determining hours to minimize their bookkeeping duties while receiving the maximum tax credit for which they are eligible. Employers can look at actual hours of service, or can use simple rules of convenience to estimate hours based on total days or weeks of service.

Transition Relief for 2010 Formalized. Because the tax credit is effective for 2010 but was not enacted until March 23, some small businesses that are providing health insurance in 2010 may not meet all the requirements for a qualifying health insurance offer. To ensure that these businesses benefit from the credit, the Administration is providing special transition relief for tax year 2010. The transition rules simplify the requirements for what constitutes a qualifying health insurance offer while maintaining the core requirement that an employer make a significant contribution to the employee's coverage. The transition relief was first mentioned in FAQs released on the IRS website on April 1, and has now been formalized in the new notice.

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.²

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.

For more information please visit www.HealthCare.gov