



Growing Profits.
Reducing Taxes.

Small Business Health Care Tax Credit

If you own a small business and the business covers at least 50% of the cost of health care coverage of the employees, you may be eligible for a tax credit. This is a new general business tax credit that was enacted in 2010. The credit is worth up to a maximum of 35% of the business' premium costs that were paid during the taxable year. 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. If your average wages exceed \$50,000 or you have more than 25 full-time equivalent workers, you would not be eligible for this credit.

Only the premiums paid by the business are used in calculating the credit. If an employer pays 75% of the premium for employees' coverage, with the employee covering the rest, only the 75% premium amount paid by the employer is used in calculating the credit.

For purposes of calculating the credit, the premium cannot exceed a pre-determined "average" premium amount. This average premium is determined by the Secretary of Health and Human Services and is calculated on a state by state basis. For Minnesota, the average single (employee-only) coverage rate is \$4,704 and \$11,938 for family coverage. For example, if a business in Minnesota has a \$5,000 premium for employee-only coverage, only \$4,704 would be the amount used in the calculation of the credit.

Business owners and family members of business owners do not count as employees in the calculation of this credit. As a result, the wages and premiums paid on behalf of owners and any family members who work for them are not included in determining the credit.

The credit is claimed on the business' income tax return. For owners of partnerships and S-Corporations, the credit will be passed through to the owners to be reported on their individual return.

This is an intricate and somewhat complicated credit. We can help with any questions you may have so don't hesitate to give us a call.

Do you qualify? Click on the link for 3 Simple Steps for the health care tax credit.