

U.S. DEPARTMENT OF THE TREASURY

Press Center



Administration Releases New Guidance on Small Business Health Care Tax Credit Small Businesses May Receive Both State and Federal Tax Credits, Dental and Vision Coverage Eligible for Credit

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"Small businesses face unique challenges to providing health insurance for their employees, including higher costs and fewer choices. The small business health care tax credit in the Affordable Care Act provides an important incentive to help small businesses overcome these challenges and cover the cost of health insurance for the hardworking Americans they employ," said Secretary Geithner.

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.*

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.

Example of Interaction with State Credit

Auto Repair Shop Receiving 40% State Credit Also Receives Full Federal Credit – Together Covering 75% of Employer's Health Insurance Costs

Main Street Mechanic :

- ***Employees*** : 10
- ***Average Annual Wage*** : \$24,000
- ***Employer Contribution to Health Insurance (before any credits)*** : \$100,000, or \$10,000 per worker
- ***State Small Business Health Care Tax Credit*** : \$40,000

Net Employer Contribution: \$60,000 (\$100,000 minus \$40,000)

Employer Contribution Qualifying for Federal Tax Credit: \$100,000

Federal Tax Credit: \$35,000 (35% of \$100,000)

Combined Federal and State Credits: \$75,000 (\$40,000 plus \$35,000)

Example of Benefit for Offering Limited-Scope Coverage

Manufacturing Firm with 10 Employees Gets \$3,500 More for Offering Vision and Dental Coverage

Acme Air Conditioning, LLC :

- ***Employees*** : 10
- ***Average Annual Wage*** : \$25,000

Employer Cost for Regular Health Insurance : \$60,000, or \$6,000 per worker

Employer Cost for Add-On Vision and Dental Plan : \$10,000, or \$1,000 per worker


Tax Credit for Regular Health Insurance: \$21,000 (35% of \$60,000)

Additional Tax Credit for Vision and Dental Plan: \$3,500 (35% of \$10,000)

Total Tax Credit: \$24,500 (35% of \$70,000)

[1] See <http://www.ncsl.org/?tabid=14526> and <http://www.ncsl.org/?tabid=13956>

REPORTS

- [Additional background on the small business health care tax credit](#) 
- [Five additional ways health reform helps small businesses](#) 