



What Women Need to Know about Health Reform: Health Insurance Tax Credits for Small Businesses Are Available Now

September 2010

For years, small business owners have struggled to find affordable health insurance for themselves and their employees. Small businesses pay up to 18% more than large firms for the same health insurance.¹ Consequently, small firms are considerably less likely to provide health insurance for their workers, or, if they do, the benefits tend to be less comprehensive.

Women are especially hard hit, both because women-owned businesses are generally small in relation to male-owned businesses² and because small businesses that don't offer employee health coverage tend to have larger proportions of female workers.³ Fortunately, the comprehensive health care reform that President Obama signed into law includes an incentive for small businesses to offer health insurance to their workers, in the form of a tax credit that takes effect this year. Millions of women working in small businesses could gain from this immediate benefit of health reform.

Health Reform Provides Tax Credits to Help Small Businesses Afford Coverage for Workers

- The new tax credit is designed to encourage small employers to offer health insurance for the first time, or to help those who already offer employee health insurance maintain that coverage.
- Businesses with fewer than 25 full-time equivalent employees (i.e. there can be more than 25 part-time employees) that pay an average salary of less than \$50,000 a year are eligible for the tax credit. The credit is available on a sliding-scale basis, meaning that the maximum credit goes to the smallest employers—those with 10 or fewer full-time equivalent employees who pay annual average wages of \$25,000 or less.
 - Owners and family members of owners who work for the business generally do not count as employees, and their hours and wages are not counted in determining the number of employees or average wages.
- To qualify for the credit, an employer must pay at least half of the cost of premiums for their employees. Only the portion of the premium that the employer pays is eligible for the credit (i.e., any portion that the employee is responsible for is not considered in the credit calculation).

Tax Credits are Available Starting with the 2010 Tax Year, and Assistance Will Increase In 2014

- For 2010, the credit is worth up to 35% of the premiums paid by the employer (25% for nonprofit businesses). In 2014, the credit increases to 50% (35% for nonprofits) for firms that purchase coverage from a state insurance exchange.
- The amount of premium costs eligible for the credit is capped based on the average cost of health insurance in the area's small group market, as determined by the Secretary of Health and Human Services. The IRS will publish these average premium amounts on an annual basis.

- For the 2010 taxable year, for instance, the IRS-published average small-group premium for family coverage ranges from \$9,365 in Idaho to \$14,138 in Massachusetts.⁴
- To better help small business owners and employees understand how the new tax credit works, the Small Business Majority has created a web-based “Health Insurance Premium Tax Credit Calculator,” available at: <http://www.smallbusinessmajority.org/tax-credit-calculator/>.

Tax Credits are Available to For-Profit and Nonprofit Businesses Alike

- Eligible small businesses can claim the credit when they file their income taxes, as a general business credit against taxes otherwise owed. If businesses do not have sufficient tax liability to fully utilize the credit, it may be carried back one year and forward 20 years. For nonprofits, which do not use general business credits, the credit is refundable, up to the amount of the income tax withheld and Medicare tax (employer and employee share). The IRS announced that it will issue a new form that both small for-profits and small nonprofits can use to calculate the credit and a separate form for nonprofits to use to claim the credit.⁵

For more information on how women will benefit from the new health reform law, visit the National Women’s Law Center website: www.nwlc.org/reformmatters

¹ *The Economic Effects of Health Care Reform on Small Businesses and Their Employees*, Executive Office of the President Council of Economic Advisors (July 25, 2009). <http://www.whitehouse.gov/assets/documents/CEA-smallbusiness-july24.pdf>

² U.S. Census Bureau, 2002 Survey of Business Owners (Released January 26, 2006). <http://www2.census.gov/econ/sbo/02/womencharts.pdf>

³ *Small Employers and Health Benefits: Findings From the 2002 Small Employer Health Benefits Survey*, Employee Benefit Research Institute, Issue Brief #253 (January 2003). <http://www.ebri.org/pdf/briefspdf/0103ib.pdf>

⁴ Internal Revenue Service, *Section 45R-Average Premium for Small Group Market for Determining the Small Employer Health Insurance Credit*, <http://www.irs.gov/pub/irs-drop/rr-10-13.pdf>, last accessed on June 1, 2010.

⁵ The new form to calculate the credit is Form 8941. Nonprofits will claim the credit on a revised Form 990-T. Both forms, with instructions, should be available later in 2010. Internal Revenue Service News Release, IR-2010-96, Sept. 7, 2010.