

In the Spotlight: Health Care Reform and Small Business Tax Credits

Under the Patient Protection and Affordable Care Act (PPACA), an employer may qualify for a 2010 tax credit if the employer (1) is a taxable employer or a 501(c) tax-exempt employer; (2) employs fewer than 25 full-time equivalent employees (FTEs); (3) pays average annual wages for FTEs less than \$50,000; and (4) pays a uniform percentage, at least half, of the health insurance coverage premiums offered to employees.

Other key elements of the PPACA small business health care tax credit include:

- Credit only covers employer paid premiums and does not include employee pre-tax or post-tax payments
- Maximum credit available is 35% of the employer paid health insurance coverage premiums (25% for tax-exempt employers); beginning 2014, maximum increases to 50% (35% for tax-exempt employers); beginning in 2014, only insurance purchased through the Exchange is eligible for the credit.
- List of health insurance coverage that qualifies is expansive, including HRAs, HSAs, HMP/PPO, dental, vision, long-term care, nursing home care, specified disease or illness, hospital indemnity, and Medicare supplemental (excludes accident, disability, or worker's compensation insurance)
- Small employers can qualify for both state and federal credits
- Credits that exceed the amount paid in taxes for a given year can be carried forward up to 20 years or back one year.

To learn more about tax credits for small businesses, [click here](#).

North Carolina and Small Business Tax Credits

North Carolina currently has a state-sponsored small employer health insurance tax incentive. Qualified employers for the state incentive program must have fewer than 26 employees, average wages of \$40,000 or less, and the employer must cover 50% of the total costs of the insurance - the credit is worth up to \$250 and was first effective January of 2007. The tax credit expired in 2010 and the North Carolina General Assembly substituted the health insurance credit for a more flexible small business tax credit in the summer legislative session of 2010. According to the North Carolina Institute of Medicine, in March of 2009, 41% of firms with fewer than 50 employees offered health insurance coverage while 99% with 50 or more employees offered health insurance coverage to their employees.

Mixed Reactions

Despite the fact that many states already have some kind of small employer tax incentive for providing health insurance to employees, the federal small business tax credit has been met with mixed reviews. The National Federation of Independent Business (NFIB) has been a particularly outspoken critic of the program. The NFIB argued that the eligibility requirements were too narrow and would only apply to 1.8 million businesses. However, the Main Street Alliance, another small business group, has offered its support for the bill, stating that it expects the new credit will allow many more employers to offer their employees health insurance.

Qualified Employers for the New SBTC

Requirements/Number of Employees	≤10 Full Time Employees (or full time equivalent)	<25 Full Time Employees (or full time equivalent)
Maximum Average Annual Wages	<\$25,000	<\$50,000
Percentage of Premium Paid for by Employer	≥50%	≥50%
Maximum Potential Credit 2010-2013	Up to 35% (25% for tax exempt firms)	Scaled, dependent on average wages and number of employees
Maximum Potential Credit 2014	Up to 50% (35% for tax exempt firms) for 2 max of years	Scaled, dependent on average wages and number of employees

What to expect long-term

The Congressional Budget Office projects \$40 billion in small business tax credits to be provided over the next 10 years. It is expected that the program will hit maximum expenditures in 2013 (the last year before full reform takes effect) at \$6 billion. After health reform is fully implemented in 2014, the program is expected to provide \$3-4 billion each year in credits. One *CNNMoney* study suggests the small employer tax credit could lower the cost of insurance by 8-11% for up to 12% of those individuals covered by small group insurance markets.

BCBSNC Views

BCBSNC supports the efforts of health reform to promote the smooth functioning of the employer based system. We believe in the significant role for employers, not only for health insurance funding, but also in order to leverage the unique position the employer holds to improve employee health through financial and community incentives. BCBSNC recognizes that affordability is a key deterrent for small employers when they evaluate the prospect of offering health insurance to their employees. Since relief provided by tax credits will be off of the prevailing premiums at the time the credits are taken, if the net impacts of other provisions of PPACA result in higher premiums for some small employers in 2014 and beyond, the main benefit of the credits may simply be to temporary shield employers from these increases. While we understand the points made by critics of the program, we believe that even if only a modest fraction of small employers take advantage of this tax credit, there is value. In order to help employers quickly and easily understand if they qualify for a tax credit, BCBSNC has posted to its website an [interactive calculator](#). There, employers can also sign up to receive updates related to health care reform and small businesses.

Calculations

Because the federal government has outlined specific ways of calculating hours and employees, there has been some confusion over how to “count” employees. For example, owner/proprietor, partners, 2% shareholders of an S corporation, or 5% owners of the employer are not included as “full time employees.” Some other definitions are listed here:

<i>Full Time Equivalent Employees (FTE):</i>	total the number of hours paid in a given tax year, divided by 2,080.
<i>Average Annual Wages (AAW):</i>	total wages paid in a given tax year, divided by number of full time equivalent employees.
<i>Credit Phase-out:</i>	phase-outs happen gradually as businesses have more than 10 FTEs or AAWs of over \$25,000.

How to Apply

Qualified employers claim their tax credit on their annual income tax return. The credit can be reflected in determining estimated tax payments for the year in which the credit applies in accordance with regular estimated tax rules. However, the credit only applies against income tax, not employment taxes.

For More Info:

BCBSNC Calculator: <http://www.bcbsnc.com/TaxSavings>

IRS Information: <http://www.irs.gov/newsroom/article/0,,id=223666,00.html>

HealthCare.gov: <http://www.healthcare.gov/law/provisions/taxcredits/>

CNN Money Study: http://money.cnn.com/2010/03/22/smallbusiness/small_business_health_reform/

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