Small business tax credit

FACT SHEET

Tax credits make employee insurance more affordable

The Patient Protection and Affordable Care Act includes a small business health care tax credit to help make employee health insurance more affordable. You may qualify for a tax credit to help offset the cost of enrolling your employees in health insurance.

By purchasing health insurance through Covered California™, you can choose from a range of health plans without the burden of additional administrative duties. Covered California is streamlining the process of choosing health plans and enrolling employees so you can focus on your business.

Qualifying for the tax credit

Small businesses are eligible for a health care tax credit if they have 25 or fewer full-time equivalent employees for the tax year, pay employees an average of less than $50,000 per year and contribute at least 50 percent toward employees' premium cost. This contribution requirement also applies to add-on coverage such as vision, dental and other limited-scope coverage.

Employers with 10 or fewer full-time equivalent employees with wages averaging $25,000 or less are eligible for the maximum amount of tax credits. Nonprofit or tax-exempt employers must meet the same criteria as other small businesses and their tax credits will be somewhat lower.

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Determining tax credit amount and duration

The tax credit you receive as an employer will depend on a number of factors including the number of full-time equivalent employees and the amount you contribute toward insurance premiums. Tax credits are available for the tax year 2013 and become more generous starting in 2014. Tax credits are available for a total of two consecutive years.

The table below illustrates the two phases of tax credits to help employers — including tax-exempt employers — with 25 or fewer full-time equivalent employees cover premium costs.

	Tax Year(s)	Maximum Tax Credit for Businesses as a Percentage of Insurance Premium Expenses	Maximum Tax Credit for Tax-Exempt Organizations as a Percentage of Insurance Premium Expenses
Phase One	2010–2013	35%	25%
Phase Two	2014	50%	35%

The first phase covers tax years 2010–2013 and during that time, there is a sliding-scale tax credit of up to 35 percent of the employer's eligible premium expenses. For tax-exempt employers, the same employee and wage requirements apply, but the maximum tax credit is 25 percent of eligible premium expenses during the first phase.

The second phase begins in tax year 2014, when the maximum tax credit increases to 50 percent of premium expenses and coverage must be purchased from a state health insurance marketplace. The maximum credit for tax-exempt employers increases to 35 percent in 2014.

The amount of the tax credit cannot exceed the total income and Medicare tax the employer is required to withhold from employees' annual wages, plus the employer's share of the Medicare tax.

Later this year, there will be resources available from Covered California that will offer resources to help you understand your potential eligibility for tax credits.

COVERED CALIFORNIA™

CoveredCA.com

Covered California is the new online "marketplace" that will make it simple and affordable to purchase high-quality health insurance and get financial assistance to help pay for insurance.

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