

Small businesses can save with health care tax credit

Fola Akinnibi, USA TODAY 8:10 a.m. EST December 9, 2013

The small business health care tax credit will increase in the upcoming tax year, but some small business owners say it is difficult to claim.



(Photo: Brett T. Roseman for USA TODAY)

Small businesses can claim a larger tax benefit for providing health care to employees, beginning with the 2014 tax year.

Included in the 2010 Affordable Care Act, the tax credit is aimed at helping small employers pay for employee health insurance and to encourage more of them to offer it.

For tax years 2010 to 2013, the maximum credit was 35% of premiums for small businesses and 25% of premiums for tax-exempt organizations. Starting with the 2014 tax year, the maximum credit is 50% of premiums for small businesses and 35% for tax-exempt organizations.

For businesses that do not owe taxes, the credit can be carried backward or forward to other tax years. Tax-exempt organizations may be able to claim the credit as a refund. There is also a provision that allows businesses to claim a deduction on the remainder of the premium that isn't covered by the credit.

More businesses are likely to take advantage of the credit as the ACA's health care exchanges continue to go online and awareness spreads, says John Arensmeyer, CEO of the Small Business Majority, a small-business advocacy group. Though there is a time commitment involved in applying for the credit, businesses that have taken advantage of the credit like it — some even claimed up to \$15,000, Arensmeyer added.

There is no downside to applying for the credit, Arensmeyer says. If a business qualifies, they receive a credit. If they don't qualify, there is no risk involved. The biggest problem, he says, is the fact that many business owners don't know they can claim it.

An estimate by the Council of Economic Advisers says 4 million small businesses would be eligible for the credit if they provided health care for their employees. But Mike King, owner of Century Benefits Group, an insurance services provider, says out of his 275 small-business clients, no more than 5% qualify for the credit.

In the credit's first year, 170,300 employers claimed it, according to a 2012 study by the Government Accountability Office. It has provided more than \$1 billion in credits since it first became available, according to the Department of Health and Human Services.

However, some small-business owners find it hard to qualify for the credit, and they say the benefits are not enough to achieve its goal — entice those who don't already provide employees with health insurance to begin providing it, King says.

In order to claim any credit, a business must meet certain criteria:

- It must cover 50% of the cost of individual health care coverage for each employee.
- The business must have fewer than 25 full-time equivalent employees, or FTEs, with average wages of under \$50,000. A single full-time employee counts as one FTE, and two half-time employees equal one FTE.
- Finally, the business must purchase a qualified health plan through a Small Business Health Options Program (SHOP) Marketplace, which is designed to help businesses with fewer than 50 FTEs.

For the full 50% credit, a business must have 10 or fewer FTEs who are paid less than \$25,000 on average. As the business approaches 25 FTEs and \$50,000 in average wages, the credit shrinks, until the business is no longer eligible.

The rules are so complex that many business owners don't bother applying, says James White, director of tax issues for the GAO. Filing for the credit would mean hiring a preparer or making a huge time commitment, something many small-business owners can't afford to do, says White, who led the 2010 GAO study.

Expanding the credit and doing away with the complex rules would offer a fix, but it would come at a high price in lost revenue for the federal government, he says.

Mark Brown, owner of financial planning firm M. Brown & Associates, says his firm qualified for the credit but after a long process, only received a \$209 credit.

"I don't see a value to it. It takes a lot to qualify," Brown says. "You have to be a very specific company with very specific employees."

Brown says he'd rather provide a defined contribution toward employees' health coverage and send them to the individual marketplace instead of providing a group plan.

Greg Westcott, owner of WestMSA, an insurance services provider, agrees. None of his 32 small-business clients qualify, and he advises those who are close to qualifying to enter the individual marketplace.

"It's easier to get (individual) subsidies than it is for the group to get the tax credit," Westcott says. "If the income of the employees is low enough, then you need to let them go to the exchange individually."

For the credit to entice small-business owners, the income level of the average employee has to go up, along with the number of FTEs, he says.

"It's pretty tough to find a group of employees with average wages less than \$25,000," he says. "It's such a narrow scope."