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Affording Health Care: Tax Credits in the Affordable Care Act Benefitting Your Small Business

Ashley Arax
Health Summer Associate

Rosa Maria Martinez
Health Program Manager

Background Information

Over the past decade, small businesses have seen their health insurance premiums rise by 133%¹. This increase is felt by everyone, but firms like businesses and non-profits in the small group market, especially those with fewer than 10 employees, are finding it difficult to insure their workers because of the cost. On average, the small group market pays 18% more than large groups for the same insurance coverage, and is less able to absorb increases due to size and smaller margins. The Patient Protection and Affordable Care Act (ACA) was signed into law by President Obama in 2010 as a major part of health care reform. The law includes ways to help these small firms offer health insurance to their employees. One of the ways is by giving qualifying small firms tax credits for a percentage of the money they spend on insuring their employees.

How can the Affordable Care Act Help Your Small Business or Non-profit?

The Affordable Care Act includes ways to help small businesses or non-profits offset the cost of providing health insurance for their employees. For example, if an employer pays for health insurance for their employees, they may be eligible to receive a tax credit for a percentage of what they pay.

Is My Small Business or Non-profit Eligible to Receive a Tax Credit?

The tax credit is for small firms who have less than 25 employees, average employee salaries less than \$50,000 per year, and who pay at least 50% of health insurance costs per employee⁵. The following chart can be used to help small firms determine if they might qualify for the credits.

Health Insurance and Ethnic Small Businesses:

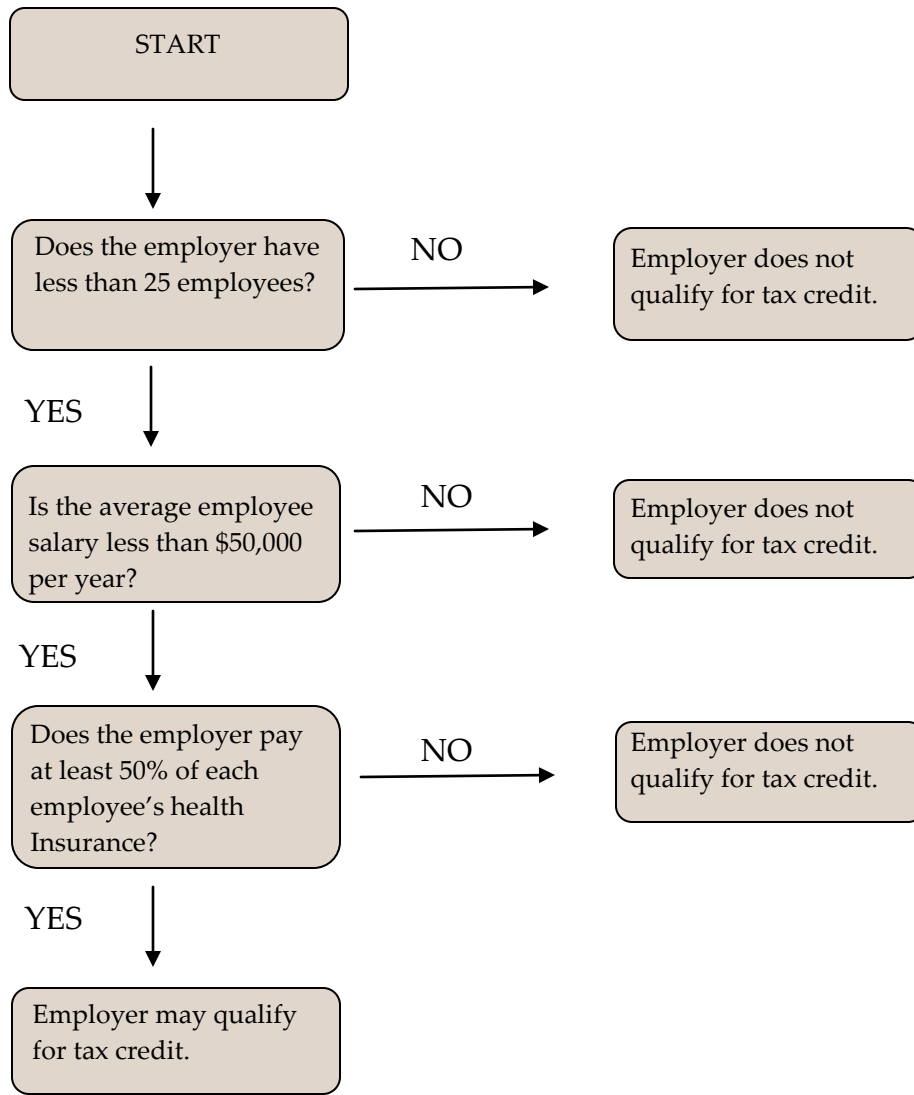
Studies have found that most ethnic-owned small businesses (ESB) fall into the “10 employee or less” category, which is the category least likely to offer insurance out of all businesses³. In addition, the recent economic recession has left some ESB that did offer health insurance with no choice but to drop the insurance in order to stay in business⁴.



THE GREENLINING INSTITUTE
1918 UNIVERSITY AVENUE, 2ND FL.
BERKELEY, CALIFORNIA 94704
T: 510-926-4001
F: 510-926-4010
WWW.GREENLINING.ORG

Contact
Carla Saporta
Health Policy Director
T: 510-926-4008
E: carlas@greenlining.org

Chart 1: Determining if a Small Business or Non-profit is Able to Receive Tax Credits



For more detailed information, please visit:
(Frequently Asked Questions) <http://www.irs.gov/newsroom/article/0,,id=220839,00.html>

If My Small Business or Non-profit Qualifies, How Much Credit Will I Receive?

The credit percentage a small business or non-profit receives depends on its size, the average annual wages of the employees, and the year that they apply for the tax credit.

The Tax Credit: 2010-2013

If you are a small business with 10 or fewer employees, the average employee wage is less than \$25,000, and you pay at least 50% of each employee's health insurance, then your business can now receive the full 35% credit of health premiums paid. For tax-exempt firms, such as non-profits, the full credit is 25% of health premiums paid. As the firm gets larger and/or average annual employee wages increase, the credit percentage decreases.

Table 1: 2010-2013 Tax Credits for Small Businesses⁷

Firm Size	Average Wage				
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000
Up to 10	35%	28%	21%	14%	7%
11	33%	26%	19%	12%	5%
12	30%	23%	16%	9%	2%
13	28%	21%	14%	7%	0%
14	26%	19%	12%	5%	0%
15	23%	16%	9%	2%	0%
16	21%	14%	7%	0%	0%
17	19%	12%	5%	0%	0%
18	16%	9%	2%	0%	0%
19	14%	7%	0%	0%	0%
20	12%	5%	0%	0%	0%
21	9%	2%	0%	0%	0%
22	7%	0%	0%	0%	0%
23	5%	0%	0%	0%	0%
24	2%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%

Source: C. L. Peterson and H. Chaikind, Summary of Small Business Health Insurance Tax Credit Under the Patient Protection and Affordable Care Act (PPACA), Congressional Research Service, April 20, 2010.

Example 1:

Small Business "X"

Employees: 7

Average annual wages: \$22,000 per employee

Annual Employer Contribution to Health Care Premiums: \$16,198

2010-2013 Tax Credit: \$5,669 (the full 35% credit)

Example 2:

Non-profit "A"

Employees: 5

Average annual wages: \$24,000 per employee

Annual Employer Contribution to Health Care Premiums: \$11,570

2010-2013 Tax Credit: \$2,892 (the full 25% credit)

Example 3:

Small Business "Y"

Employees: 15

Average annual wages: \$24,500 per employee

Annual Employer Contribution to Health Care Premiums: \$34,710

2010-2013 Tax Credit: \$7,983 (23% credit)

The credit percentage gets smaller as firm size gets larger and/or average annual wages increase. In example 3, the small business does not receive the full 35% tax credit percentage because there are more than 10 employees. Even though the average annual wages are less than \$25,000, the number of employees is too high to receive the full credit.

Instead, the business receives a 23% credit.

The Tax Credit: 2014 and Beyond

Starting in 2014, the tax credit percentage increases. In order to receive the tax credit, small firms will have to purchase insurance through a newly established health benefit exchange called the Small Business Health Options Program (SHOP). Small firms can access the tax credits for any two consecutive years starting with 2014, and after the second year, the firms are no longer eligible for the credits.

What is a health benefit exchange?

A health benefit exchange is a marketplace where consumers can compare and shop for different health insurance plans from different insurance providers. Starting in 2014, small businesses and non-profits can buy health insurance for their employees in an exchange called SHOP (Small Business Health Options Program). In order to qualify for the 2014 and beyond tax credit, businesses must purchase health insurance in the SHOP health benefit exchange.

If you are a small business with 10 or fewer employees, the average employee wage is less than \$25,000, you pay at least 50% of each employee's health insurance, and you purchase insurance through the SHOP health benefit exchange, then your business can receive the full 50% credit of health premiums paid. For tax-exempt firms, such as non-profits, they can receive a maximum of 35% of health premiums paid (see Appendix A). As the firm gets larger and/or average annual employee wages increase, the credit percentage becomes smaller.

Table 2: 2014 and Beyond Tax Credits for Small Businesses ¹¹

Firm Size	Average Wage				
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000
Up to 10	50%	40%	30%	20%	10%
11	47%	37%	27%	17%	7%
12	43%	33%	23%	13%	3%
13	40%	30%	20%	10%	0%
14	37%	27%	17%	7%	0%
15	33%	23%	13%	3%	0%
16	30%	20%	10%	0%	0%
17	27%	17%	7%	0%	0%
18	23%	13%	3%	0%	0%
19	20%	10%	0%	0%	0%
20	17%	7%	0%	0%	0%
21	13%	3%	0%	0%	0%
22	10%	0%	0%	0%	0%
23	7%	0%	0%	0%	0%
24	3%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%

Source: C. L. Peterson and H. Chaikind, Summary of Small Business Health Insurance Tax Credit Under the Patient Protection and Affordable Care Act (PPACA), Congressional Research Service, April 20, 2010.

Example 4:

Small Business "X"

Employees: 7

Average annual wages: \$22,000 per employee

Annual Employer Contribution to

Health Care Premiums: \$16,198¹²

2014 and Beyond Tax Credit: \$8,099 (the full 50% credit)

Example 5:

Non-profit "A"

Employees: 5

Average annual wages: \$24,000 per employee

Annual Employer Contribution to

Health Care Premiums: \$11,570¹³

2014 and Beyond Tax Credit: \$4,049 (the full 35% credit)

Example 6:

Small Business "Y"

Employees: 15

Average annual wages: \$24,500 per employee

Annual Employer Contribution to

Health Care Premiums: \$34,710¹⁴

2014 and Beyond Tax Credit: \$11,454
(33% credit)

Just like the 2010-2013 tax credits, the 2014 and beyond credit percentage gets smaller as firm size gets larger and/or average annual wages increase.

The same small business "Y" (see Example 3) receives a 33% credit, because it has more than 10 employees.

Additional Information about Eligibility

Owners and family members that work for the business do not count as employees, and their health care expenses are not eligible for the tax credits. A family member is defined as the following: a child or grandchild, a sibling or step-sibling, a parent, a step-parent, a niece or nephew, an aunt or uncle, and most -in-laws. If a spouse works for the business, the following spouses do not count towards the credit: the employee-spouse of a sole proprietor, partner owning more than a 5 percent interest in a partnership, or an owner of more than five percent of a business¹⁵. Businesses that are not eligible to purchase insurance in SHOP can purchase insurance through a separate health benefit exchange for individuals.

Conclusion

Health care reform will impact firms large and small, especially after 2014, when the requirement to have health care takes effect. Small businesses with less than 50 employees will not be required to provide health insurance to their employees, but they may want to do so in order to attract more competitive candidates for employment and to reduce indirect costs from employee absenteeism.

Appendix A

Tax Credits for Tax Exempt Firms: 2014 and Beyond¹⁶

Firm Size	Average Wage				
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000
Up to 10	35%	28%	21%	14%	7%
11	33%	26%	19%	12%	5%
12	30%	23%	16%	9%	2%
13	28%	21%	14%	7%	0%
14	26%	19%	12%	5%	0%
15	23%	16%	9%	2%	0%
16	21%	14%	7%	0%	0%
17	19%	12%	5%	0%	0%
18	16%	9%	2%	0%	0%
19	14%	7%	0%	0%	0%
20	12%	5%	0%	0%	0%
21	9%	2%	0%	0%	0%
22	7%	0%	0%	0%	0%
23	5%	0%	0%	0%	0%
24	2%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%

Source: C. L. Peterson and H. Chaikind, Summary of Small Business Health Insurance Tax Credit Under the Patient Protection and Affordable Care Act (PPACA), Congressional Research Service, April 20, 2010.

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- Corralejo, J. (2011, June 27). Phone Interview.
- <http://www.irs.gov/newsroom/article/0,,id=220839,00.html>. Accessed June 10, 2011.
- Employer must pay at least 50% of the employee-only premium (single rate).
- S. R. Collins, K. Davis, J. L. Nicholson, and K. Stremikis, Realizing Health Reform's Potential: Small Businesses and the Affordable Care Act of 2010, The Commonwealth Fund, September 2010.
- Amount is based on employee-only average premium for the small group market in California for the 2010 taxable year, which is \$4,628. Employer contribution was calculated as 50% of this premium value.
- Ibid.
- Ibid.
- S. R. Collins, K. Davis, J. L. Nicholson, and K. Stremikis, Realizing Health Reform's Potential: Small Businesses and the Affordable Care Act of 2010, The Commonwealth Fund, September 2010.
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