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IRS ISSUES GUIDANCE ON SMALL EMPLOYER HEALTH COVERAGE TAX CREDIT

Effective for 2010, a new federal tax credit for contributions to employee health coverage will be available for eligible small employers. The credit is generally available to small employers that pay at least half the cost of single coverage for their employees. The maximum credit is 35% of the premiums paid in 2010 by eligible small employers and 25% of the premiums paid by eligible tax-exempt organizations. But the maximum amount is available only for employers with 10 or fewer full time employees and average annual wages of \$25,000 or less. The tax credit then phases out for employers with between 10 and 25 full time employees and those with annual average wages between \$25,000 and \$50,000. In 2014, these maximum credits increase to 50% for eligible small employers (35% for eligible tax-exempt organizations).

This credit is intended to encourage small employers to offer health insurance for the first time or maintain coverage they already have. Eligible small employers can claim the credit as part of the general business credit starting with their 2010 income tax return. For tax-exempt employers, however, the IRS will provide further information on how to claim the credit.

The IRS has posted [information](#) on obtaining the credit and frequently asked questions (FAQs) about it. The posted information links to additional IRS resources, including tax tips, and the FAQs provide some helpful details about how the credit works, including what employers are eligible, how the credit is calculated, how average annual wages and full time employees are determined (including treatment of part-time and seasonal workers), and how the credit is claimed. The IRS will use postcards to reach out to millions of small businesses to encourage them to take advantage of this credit.

As always, if you have any questions regarding the latest on national health insurance reform, visit our [health reform section on our website](#) or contact your Conner Strong account representative at 1-877-861-3220.