

# Small Businesses & Health Insurance

## The Small Business Health Care Tax Credit Can Help You Purchase Health Insurance for Your Employees

***The Affordable Care Act created a new tax credit to help small businesses offer health insurance to their employees.***



### **What is the Small Business Health Care Tax Credit?**

It allows some small businesses to claim a tax credit of up to 50% of their employee health insurance costs.

For tax-exempt small businesses, the credit can be as high as 35% and is refundable. This means that your non-profit small business need not have any income tax liability to benefit.

### **Can I claim this credit?**

In general, the credit can be claimed by for-profit and non-profit businesses that:

- Have **fewer than 25 employees and average salaries of around \$53,000 or less** (excluding the salaries of all owners).
  - > In general, owners are not included when figuring out the number of employees and average salaries for the business. Also, the number of employees is based on “full-time equivalents” (FTEs). That means two half-time employees would equal one full-time employee.
- **Pay at least half of the cost of premiums for employees;** and
- Offer coverage **through the New York State-run NY State of Health’s Small Business Marketplace.**

The credit is available on a sliding scale. The tax credit is eliminated once an employer has 25 employees or the average wage is about \$53,000 or higher.

**Learn more about health care reform and the small business health care tax credit, visit the NY State of Health at [nystateofhealth.ny.gov](http://nystateofhealth.ny.gov) or call 1-855-355-5777.**





### **Can I get any other tax breaks for offering health insurance?**

Yes, all businesses can claim an **income tax deduction for the cost of employee health insurance**. It's an "ordinary and necessary" business expense.

By combining the two types of tax breaks, eligible small businesses can claim the **health care tax credit** for up to 50% of costs and, for the remaining costs, **claim a deduction**. (You cannot claim a deduction for 100% of your health insurance costs if you are also claiming the health care tax credit.)

### **How can I find out how much of a credit I may be able to claim?**

You should talk with your tax advisor or accountant to find out how the tax credit may work for you.

In addition, NY State of Health's Small Business Marketplace has a calculator on its website that provides you with an estimate of the credit before you apply. It is located in the "Employer" section of the website.

To learn more about the health care tax credit, visit the IRS website: [irs.gov/affordable-care-act/employers/small-business-health-care-tax-credit-and-the-shop-marketplace](https://www.irs.gov/affordable-care-act/employers/small-business-health-care-tax-credit-and-the-shop-marketplace)

### **How do I claim the credit?**

You can claim this tax credit on your annual income tax return with attached **IRS Form 8941** (Tax-exempt small businesses must file a **Form 990-T** tax return to claim, even if not otherwise required to file).

Your employees are not subject to tax on the contributions you make toward their coverage.

### **Can I take advantage of the credit even if I don't have any income tax liability?**

Yes, the health care tax credit can be **carried back** and used to offset income tax liability incurred the previous year or **carried forward** to offset liability incurred over the next 20 years. The credit is **refundable** for tax exempt businesses.

*Last modified: 03/2020*

This fact sheet is provided for informational purposes only by the NYC Human Resources Administration Office of Citywide Health Insurance Access. Please consult an insurer, broker, tax advisor or state regulatory authority to understand your rights and responsibilities. To ensure compliance with requirements imposed by U.S. Treasury Regulations, we inform you that any U.S tax advice deemed to be contained in this communication (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.