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IRS Helps Small Employers Claim New Health Care Tax Credit; Forms and Additional Guidance Now Available on Small Business Health Care Tax Credit

WASHINGTON — The Internal Revenue Service today released final guidance for small employers eligible to claim the new small business health care tax credit for the 2010 tax year. Today's release includes a one-page form and instructions small employers will use to claim the credit for the 2010 tax year.

New Form 8941, Credit for Small Employer Health Insurance Premiums, and newly revised Form 990-T are now available on IRS.gov. The IRS also posted on its website the instructions to Form 8941 and Notice 2010-82 , both of which are designed to help small employers correctly figure and claim the credit.

Included in the Affordable Care Act enacted in March, the small business health care tax credit is designed to encourage both small businesses and small tax-exempt organizations to offer health insurance coverage to their employees for the first time or maintain coverage they already have.

The new guidance addresses small business questions about which firms qualify for the credit by clarifying that a broad range of employers meet the eligibility requirements, including religious institutions that provide coverage through denominational organizations, small employers that cover their workers through insured multiemployer health and welfare plans, and employers that subsidize their employees' health care costs through a broad range of contribution arrangements.

In general, the credit is available to small employers that pay at least half of the premiums for single health insurance coverage for their employees. It is specifically targeted to help small businesses and tax-exempt organizations that primarily employ moderate- and lower-income workers.

Small businesses can claim the credit for 2010 through 2013 and for any two years after that. For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and 25 percent of premiums paid by eligible tax-exempt organizations. Beginning in 2014, the maximum tax credit will increase to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible tax-exempt organizations.

The maximum credit goes to smaller employers — those with 10 or fewer full-time equivalent (FTE) employees — paying annual average wages of $25,000 or less. The credit is completely phased out for employers that have 25 or more FTEs or that pay

average wages of $50,000 or more per year. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, employers that use part-time workers may qualify even if they employ more than 25 individuals.

Eligible small businesses will first use Form 8941 to figure the credit and then include the amount of the credit as part of the general business credit on its income tax return.

Tax-exempt organizations will first use Form 8941 to figure their refundable credit, and then claim the credit on Line 44f of Form 990-T. Though primarily filed by those organizations liable for the tax on unrelated business income, Form 990-T will also be used by any eligible tax-exempt organization to claim the credit, regardless of whether they are subject to this tax.

More information about the credit, including a step-by-step guide to claiming the credit and answers to frequently asked questions, is available on the Affordable Care Act page on IRS.gov.

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