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CLIENT ALERT

Tax Credit Helps Small Employers Provide Health Insurance Coverage

Included in the health care reform legislation, signed by President Obama on March 23, 2010 is a credit designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have for their employees. In general, the credit is available to small employers that pay at least half of the cost of single coverage for their employees.

Starting in 2010, the maximum credit is 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. In 2014, the maximum credit increases to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible employers that are tax-exempt organizations.

The credit is specially targeted to help small businesses and tax-exempt organizations that primarily employ low and moderate-income workers. It is generally available to employers that have fewer than 25 full-time equivalent (FTE) employees paying wages averaging less than \$50,000 per employee per year. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, many businesses will qualify even if they employ more than 25 individual workers.

The maximum credit goes to smaller employers - those with 10 or fewer FTEs - paying annual wages of \$25,000 or less.

Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011. For tax-exempt employers, the Internal Revenue Service will provide further information on how to claim the credit.

More information is available on the IRS website at www.irs.gov.

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