Small Employer Health Care Tax Credit
National Council of Nonprofits

Is your nonprofit eligible for a "tax credit" for health insurance premiums it paid to provide health insurance for its employees?

Federal legislation in 2010 included a provision that gives eligible small (under 25 employees) tax-exempt nonprofits the opportunity to receive a refund for insurance premiums paid on behalf of their employees' health insurance. (The Council of Nonprofits and its State Association network worked hard to have this provision included in the law.)

The IRS then created the process for small nonprofits (under 25 full time employees) to take advantage of the Small Business Health Care Tax Credit. For tax-exempt nonprofits the credit is actually a refund on quarterly payments the nonprofit has made to the IRS for income tax withholdings or Medicare withholdings from employee wages. For 2010-2013 the refund is 25% of the expense paid by the employer towards employees' health insurance premiums (minus a small adjustment resulting from sequestration). The refund increases to 35% after January 1, 2014.

Frequently Asked Questions on the Small Business Health Care Tax Credit (IRS)

For additional information on the Affordable Care Act, visit the Council of Nonprofits’ resources: Affordable Care Act and Nonprofits and Affordable Care Act FAQs.

How do I know if my nonprofit qualifies for this refund?

Eligibility is limited only to those employers who pay at least 50% of their employees’ health care insurance costs, and who employ fewer than 25 FTE-equivalent employees. Determining whether your nonprofit qualifies for the credit also requires you to calculate what your nonprofit’s “average wages” are. The average wages to all employees must be $50,000 or less annually. Overtime hours worked are not included in the calculation. The hours of leased employees are included, but you don’t count seasonal employees working fewer than 120 days. Helpful explanations are included in the Instructions for Form 8941. What if an employer has employees in multiple states? Use the average state premium in each state where an employee works.

The IRS has excellent materials explaining the Small Business Health Care Tax Credit. You can also use the tool: 3 Simple Steps, to determine if your organization qualifies for the credit, and IRS Form 8941, "Credit for Small Employer Health Insurance Premiums," to determine the amount of the tax credit/refund. The Tax Payer Advocate also offers guidance on how to determine eligibility for the tax credit, and has created an "estimater" to help you estimate the credit/refund your nonprofit will be entitled to. Even more FAQs are available from the tax payer advocate. Note that sequestration has resulted in a small reduction in the credit/refund.
How do we claim this refund?

First calculate the credit using Form 8941. Then include the amount on line 44f of the Form 990-T, Exempt Organization Business Income Tax Return. (In order to claim the credit, your nonprofit must file the Form 990-T, even if your nonprofit doesn't ordinarily file that form.) This credit has been available since 2010. If your nonprofit was/is eligible but did not apply in past years, you can still file for the credit retroactively. Be sure to read the instructions for Form 8941 for the applicable year. 2010 Instructions for Form 8941
2011 Instructions for Form 8941

One important thing to remember is that if your nonprofit is filing Form 990-T for tax year 2010, the employer must do so before the due date of the tax year 2013 Form 990-T. As of January 1, 2014, the credit will only be available to employers who purchase insurance for their staff through the Marketplaces.

- **How do I claim the credit?** The small employer credit can be claimed against three of the payroll taxes that nonprofits regularly send into the IRS: the employer and employee share (combined total of 2.9%) of Medicare withholding, and the federal income taxes withheld by the employer on behalf of the employee. Employees will continue to get credit for their withheld income taxes payments.

- **How long can I claim the credit?** The credit is available immediately through 2013, and then for two additional years as long as insurance is purchased through a newly created exchange.

The Internal Revenue Service has also provided guidance, tax tips, guides, examples, and answers to frequently asked questions on its website and alerted small employers of the credit via a special postcard that was sent out in April 2013.

**More Resources**

- Small Business Health Care Tax Credit resources (IRS)
- YouTube video on the Small Business Health Care Tax Credit
- Chart from Congressional Research Services to help calculate your credit