



SMALL BUSINESS HEALTH CARE TAX CREDIT

Eligible small businesses and tax-exempt employers can take the [small business health care tax credit](#) for two consecutive years.

ELIGIBILITY

An employer is eligible for the credit if:

- It had **fewer than 25 full-time equivalent employees (FTEs)** for the tax year.
- It paid **at least 50% of the premium cost** for single health care coverage for each employee.
- The **average annual wages** of its employees are less than a specified amount adjusted for inflation each year (for tax year 2022, the amount is **\$57,400**).

It paid premiums on behalf of employees enrolled in a qualified health plan offered through a [Small Business Health Options Program \(SHOP\) Exchange](#) (or qualify for an exception to this requirement).

Note: Employers in Hawaii are [not eligible](#) for the small business health care tax credit.

THE CREDIT

In general, the credit amount works on a sliding scale—the smaller the employer, the bigger the credit. The maximum credit is 50% of premiums paid by eligible small businesses and 35% of premiums paid by eligible tax-exempt organizations.

If the employer provides more than one type of coverage, or if the employer's health insurance provider does not charge the same premium for all enrolled employees, the employer may qualify even if he or she paid less than 50% of the premium cost for some employees.

Consult the [Small Business Health Care Tax Credit Estimator](#) and [IRS Q&As](#) for information on how to calculate the credit.

FTES AND AVERAGE ANNUAL WAGES

For purposes of the health care tax credit, one [full-time equivalent employee](#) (FTE) generally equals 2,080 hours per year. (This is different from other Affordable Care Act provisions that count 30 hours per week as one FTE.)

To arrive at the number of FTEs, divide the total hours of service for which the employer pays wages during the year (not more than 2,080 hours for any employee) by 2,080.

An employee's **hours of service** include each hour for which he or she is paid, or entitled to payment, during the employer's tax year. Hours of service may be calculated using: actual hours of service, a "days-worked equivalency," or a "weeks-worked equivalency."



To calculate average annual wages, divide the total FICA wages paid by the employer during the tax year (not considering wage base limits) by the number of FTEs for the year. The result is rounded down to the nearest \$1,000.

HOW TO CLAIM THE CREDIT

Businesses [claim the credit](#) on their annual income tax returns by attaching [Form 8941](#) showing the calculation of the credit. **Small business employers who did not owe tax during the year may be able to carry the credit back or forward to other tax years.**

Tax-exempt organizations claim the credit by filing Form 990-T with an attached Form 8941 showing the calculation of the credit. The credit is refundable for tax-exempt employers, so the employer may receive a refund even if it has no taxable income. However, the amount of the credit cannot be more than the total amount of income and Medicare tax the employer is required to withhold from employees' wages for the year and the employer share of Medicare tax on employees' wages for the year.