



# Does the Federal Government Owe You Tens of Thousands of Dollars? Here's how to claim the health-care credit for your organization.

**B**uried in all the controversy about the Affordable Care Act (ACA) (often referred to as “Obamacare”) is a tax credit that may save you tens of thousands of dollars a year. The small business health care tax credit (Tax Credit) is an incentive for small employers, including nonprofits, to provide health insurance coverage to their employees.

The Tax Credit is effective for taxable years beginning in 2010. Nonprofits may be eligible if they contribute a uniform percentage of at least 50% toward the cost of their employees' health insurance.<sup>1</sup>

For tax-exempt organizations, the Tax Credit can be up to 25% of premiums paid. It takes the form of a refundable credit against the amounts the employer is required to withhold from its employees' wages for federal income taxes and Medicare tax, plus the employer share of Medicare taxes.

## Eligibility for the Tax Credit

To be eligible, your organization must (1) employ fewer than 25 full-time-equivalent (FTE) employees; (2) pay average annual wages of less than \$50,000 per employee; and (3) offer health insurance and pay at least 50% of the premium.

**Fewer than 25 Employees.** To calculate the number of employees, add up the following: (1) number of full-time employees (those who work at least 40 hours a week); (2) number of FTE employees (divide the number of annual hours of part-time employees by 2,080).

**Wages of Less than \$50,000 Per Employee.** To determine average annual wages, take the total annual wages paid to employees and divide it by the number of employees from the previous step.

## How to Claim the Tax Credit

You can claim the credit on Form 990-T (“Exempt Organization Business Income Tax Return”) and receive the credit as a refund, even if you have no taxable income. You may claim the credit for up to six years (the initial four years from 2010 through 2013 and

any two consecutive years) if you buy insurance through the Small Business Health Option Programs, which are part of the insurance exchanges established under ACA.<sup>2</sup>

If you've already filed a Form 990-T for years 2010 and 2011, you may still claim the tax credit for those years by filing amended returns. Even if you're not required to file Form 990-T, you may do so to claim the tax credit. There's no penalty for late filing. 

*This article was prepared by Gammon & Grange (www.gg-law.com), a law firm serving nonprofit organizations and businesses throughout the United States and abroad.*

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<sup>1</sup>Employer contributions to health reimbursement arrangements (HRAs), health savings accounts (HSAs), and flexible spending accounts (FSAs) aren't eligible for purposes of computing the tax credit. See IRS Notice 2010-82.

<sup>2</sup>ACA requires the establishment of these exchanges in each state (by January 1, 2014) to help individuals and employers compare and select insurance coverage from among participating health plans. See Pub. L. No. 111-148, § 1311(b), 124 Stat. 119, 173.