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### **Health care reform creates tax credit for small businesses**

A state whose economy is built by entrepreneurs, Arizona is home to thousands of small businesses. These vital economic engines recently received good news from the Internal Revenue Service: there are immediate benefits for small businesses included in the recent federal health care reform legislation.

Beginning this year, companies with fewer than 25 employees will be eligible for a potentially sizable tax credit.

The windfall couldn't come at a better time for small business owners, as the recession continues to hamper growth and firms brace for change due to health care reform.

Small businesses make up a substantial portion – an estimated 95 percent – of our state's business marketplace. These firms employ hundreds of thousands of Arizona residents, and the tax credit may be of great benefit to those already assisting their employees in obtaining and retaining health care coverage.

Under the new law, eligible companies can recoup up to 35 percent of 2010 health care premium costs paid by the employer and up to 25 percent for tax-exempt organizations. The smallest businesses (those with fewer than 10 full-time employees and an average salary of less than \$25,000) may earn the maximum credit available.

There are three basic requirements to determine eligibility:

1. The company must have fewer than 25 full-time-equivalent workers.  
Organizations with more than 25 employees should consider whether those are full-time or part-time. They could still be eligible for the credit, based on the IRS's calculations for full-time employees. Employers should also remember for the purposes of qualifying for this tax credit, family members of business owners don't factor into the total employee count. (Visit [IRS.gov](http://IRS.gov) for the FTE formula.)
2. At least 50 percent of health care premiums must be paid by the employer.
3. The firm's average annual wages cannot exceed \$50,000.

To claim the credit, firms must declare the appropriate amount on their annual income tax return. Tax-exempt organizations will be given instructions on claiming the credit at a later date. For detailed information on how much their credit will be, employers should consult their tax expert.

For more information, visit [IRS.gov](https://www.irs.gov).

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*Kate Baker is the Vice President, Treasurer of Blue Cross Blue Shield of Arizona, which has been serving citizens and businesses throughout the state since 1939.*