

Limited Use of Small Employer Health Credit

Cross References

- Form 8941, *Credit for Small Employer Health Insurance*
- IRC §45R
- GAO Testimony before the Subcommittee on Economic Growth, March 22, 2016

The Credit for Small Employer Health Insurance was enacted in 2010 as part of the Affordable Care Act (ACA) and was designed to encourage small business employers to offer health insurance for their employees. A qualified small business employer is an employer with no more than 25 full-time equivalent employees, and whose employees have annual full-time equivalent wages that average no more than \$51,600 (2015 amount indexed for inflation). Qualified small business employers can receive a tax credit of up to 50% of the employer's contribution to the health insurance premium for each covered employee.

When the ACA was first enacted, the Congressional Budget Office and the Joint Committee on Taxation estimated that eligible employers would claim some \$2 billion in tax credits for the 2010 tax year. According to IRS statistics, actual claims for the credit in 2010 were only \$468 million. In 2012, the U.S. Government Accountability Office (GAO) reported that selected estimates of the number of employers eligible for the credit ranged from about 1.4 million to 4 million. The actual number of employers that claimed the credit for each year was as follows:

<i>Tax Year</i>	<i>Number of Employers That Claimed the Credit</i>
2010.....	188,303
2011.....	191,755
2012.....	181,826
2013.....	173,492
2014.....	181,004

In its testimony before Congress, the GAO said the small employer health tax credit had not been widely claimed for a variety of reasons. The maximum amount of the credit does not appear to be a large enough incentive for employers to offer or maintain insurance. Also, few small employers qualify for the maximum credit amount. For those employers who do claim the credit, the credit amount phases out to zero as employers employ up to 25 full time equivalent employees at higher wages. The amount of the credit is also limited if premiums paid by an employer are more than the average premiums for the small group market in the employer's state. Furthermore, the credit can only be claimed for two consecutive years after 2013. GAO also found that the cost and complexity involved in claiming the tax credit was significant, deterring small employers from claiming it.