IRS Offers Info on Small Biz Tax Credits in Health Bill

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The Internal Revenue Service said that many small businesses and tax exempt organizations that provide health insurance coverage to employees now qualify for a new tax credit, thanks to the health care reform bill.

Included in the health care reform legislation, the Patient Protection and Affordable Care Act, approved by Congress and signed by President Obama on March 23, the credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

“This credit provides a real boost to eligible small businesses by helping them afford health coverage for their employees,” said IRS Commissioner Doug Shulman in a statement. “We urge small businesses and tax-exempt employers to look closely at this important tax break – which is already effective – to see if they qualify.”

The maximum credit is 35 percent of premiums paid in 2010 by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. In 2014, this maximum credit increases to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible employers that are tax exempt organizations.

The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ low and moderate income workers. It is generally available to employers that have fewer than 25 full-time equivalent employees paying wages averaging less than $50,000 per employee per year. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, many businesses will qualify even if they employ more than 25 individual workers.

The maximum credit goes to smaller employers – those with 10 or fewer FTEs – paying annual average wages of $25,000 or less. Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011. For tax-exempt employers, the IRS will provide further information on how to claim the credit.

Separately, the health care reform bill also includes a new, but little known tax incentive for biotech companies: the Qualifying Therapeutic Discovery Project Credit. Enacted as Sec. 48D of the Tax Code, the Therapeutic Credit will allow some businesses to claim a credit for 50 percent of their qualified investment in qualifying therapeutic discovery projects for 2009 and 2010. Only businesses with 250 or fewer employees may qualify; and taxpayers may elect to receive grants in lieu of tax credits.

The ability to receive grants, in particular, makes the Therapeutic Credit especially attractive to the many small biotech companies (including pass-through entities) that have been unable to take advantage of the Section 41 R&D tax credit due to losses or AMT, according to tax services provider alliantgroup.

“This new Therapeutic Credit provides small biotechs with much-needed capital to sustain their R&D programs, and it couldn’t have come at a better time, with the current investing climate,” said biochemist and alliantgroup managing director David Ji. “It has the potential to result in new treatments, new therapies and life-saving cures.”