

Comparing the Small Business Tax Credit Provisions In the House, Senate HELP Committee, and Senate Finance Committee Bills

Eligibility for the Credit

To be eligible for the small business tax credit, businesses must qualify under the following criteria:

1. Business Size Eligibility

- **House Bill:** Up to 25 workers (“workers” = anyone earning more than \$5,000/year from the employer).
- **Senate HELP:** 50 or fewer full-time workers (“full-time worker” = a person working an average of 40 hours per week or more).
- **Senate Finance:** 25 or fewer full-time equivalent workers (“full-time equivalent” or “FTE” = total hours worked by all employees during the taxable year [up to a maximum of 2,080 counted per employee] divided by 2,080).

2. Wage Eligibility

- **House Bill:** Employees must earn, on average, at least \$5,000 but less than \$40,000 a year from the employer. No credit is available for any employee who earns more than \$80,000.
- **Senate HELP:** Must have an average wage of less than \$50,000 for full-time employees.
- **Senate Finance:** Employees must have annual full-time equivalent wages that average up to \$40,000 (indexed to CPI-U starting in 2014).

Size of the Credit

- **House Bill:**
 - Full credit is 50 percent of an employer’s premium expenses.
 - The credit phases out as firm size increases; between 10 and 25 employees, the credit decreases on a sliding scale as the number of employees increases.
 - The credit also phases out as average compensation increases; between \$20,000 and \$40,000 average compensation, the credit decreases on a sliding scale as the average compensation increases.
 - Starting after 2013, the credits are increased by COLA, rounded to the next lowest multiple of \$50.

- **Senate HELP:**
 - Base credit— \$1,000 for single, \$1,500 for an employee plus spouse or an employee plus one or more children, and \$2,000 for family coverage.
 - Bonuses of \$200 for single, \$300 for an employee plus spouse or one or more children, and \$400 for family coverage will be added to the base credit for each 10 percent of the premium the employer pays above 60 percent.
 - The sum of each of the first two factors will be multiplied by a factor for the number of employees and a factor that accounts for the number of months the employer provided coverage.
 - Size factor = 80 percent for firms with 11-20 employees, 50 percent for 21-30, 40 percent for 31-40, and 20 percent for firms with 41-50 employees.
 - Month factor = number of months the employer provided coverage, divided by 12.
 - Every year after 2009, the total credit amount will be adjusted by a ratio of the wage inflation index for August of the preceding year over August 2008, rounded to the next lowest multiple of 100.
- **Senate Finance:**
 - Full credit is available to employers with 10 or fewer FTEs who have an average full-time equivalent wage of less than \$20,000. Phases out— 6 percent less for each employee over 10. Simultaneously phases out by wages: 5 percent less for each \$1,000 increase of average wages over \$20,000.
 - For years 2011 and 2012: Full Credit= 35 percent of employer contribution to coverage. Includes only non-elective contributions (not contributions pursuant to a salary reduction arrangement under a section 125 cafeteria plan).
 - For years 2013 and beyond: Full Credit= 50 percent of employer contribution to coverage (through the Exchange).

Requirements for Employer Contributions to Employee Premiums

- **House Bill:** Must be used toward qualifying health benefit plan, but there are no specific requirements outside of the employer mandate (from which employers with payrolls under \$250,000 in Waxman Mark or \$500,000 in Blue Dog Amendment are exempt).
- **Senate HELP:** Employers must contribute at least 60 percent of workers' premiums.
- **Senate Finance:** In years 2011 and 2012, employers must provide coverage purchased through a state-licensed insurer. To receive credits starting in taxable years after December 31, 2012, the credit would be available only for coverage purchased through the state Exchange. (If the state doesn't yet have an Exchange with reformed rating rules, employers can't obtain credits.) Employers must contribute the lesser of: 50 percent of employees' total premiums or 50 percent of the average total premium cost in the small group market in the state (taking into account variation based on family size).

When Self-Employed Individuals Can Receive the Credit

- **House Bill:** Self-employed can be treated as an employer with one employee and receive the credit.
- **Senate HELP:** Self-employed with net earnings between \$5,000 and \$50,000 or gross earnings between \$15,000 and \$150,000 qualify for the credit.
- **Senate Finance:** Self-employed individuals, including partners and sole proprietors, may not receive small business credits for the purchase of their coverage or the coverage of their family members. They may purchase coverage through the Exchange as individuals or families, and, depending on their income, they may be eligible for subsidies.

Implementation Date

- **House Bill:** Credits start in taxable years after December 31, 2012 (2013).
- **Senate HELP:** Starting in 2010, businesses may receive credits for three years.
- **Senate Finance:** Starting in 2011, businesses can get credit for currently available small business coverage. Then, starting on July 2, 2013, businesses can get credit for two years for the purchase of Exchange coverage only.



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