

Small Business Health Insurance Tax Credit Overview for Employers

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For taxable years beginning on or after January 1, 2007, certain small employers are able to take a tax credit to offset their costs in providing health benefits. Specific requirements must be met in order to be eligible for the tax credit.

Definitions

- “Eligible Employee” means an employee who works for a small employer on a full-time basis, with a normal work week of 30 or more hours, including a sole proprietor, a partner or a partnership, or an independent contractor, if included as an employee under a health care plan of a small employer; but does not include employees who work part-time, temporary, or substitute basis. § 58-50-110(10).
- “Small Business” means a business that employs ≤ 25 eligible employees and must provide health benefits for all its eligible employees.¹

Overview of Legislation

- The small business must pay at least fifty percent (50%) of the premiums for health care coverage.
- The health care coverage must equal or exceed the minimum provisions of the basic health care plan (SGR) coverage recommended by the Small Employer Carrier Committee or the eligible employees have qualifying existing coverage.
 - The Small Employer Carrier Committee established two plans of coverage, the Basic plan and the Standard Plan. Each plan of coverage shall be in two forms, one of which is in the form of insurance and the second of which is consistent with benefit plans of HMOs, including federally qualified HMOs as provided for in § 58-50-125(a).
- The tax credit is equal to a dollar amount per eligible employee whose total wages or salary received from the business does not exceed forty thousand (\$40,000) on an annual basis.

¹ This definition deviates from the statutory definition of a small employer under NCGS 58-50-112 which requires < 50 eligible employees and that a majority must be employed within the state of North Carolina.

- The dollar amount of the tax credit is two hundred fifty dollars (\$250.00), not to exceed the taxpayer's costs of providing health benefits for the employee during the taxable year.
- If the taxpayer is an individual who is a nonresident or a part-year resident, the taxpayer must reduce the amount of the credit by multiplying it by the fraction calculated under § 105-134.5(b) or (c) as appropriate. If the taxpayer is not an individual and is required to apportion its multi-state business income to the State, the taxpayer must reduce the amount of the credit by multiplying it by the apportionment fraction used to apportion its business income to this State.
- A sunset clause is included in the legislation, which stipulates that the law expires for taxable years beginning on or after January 1, 2009.

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The information contained in this document is for general information on the Small Business Health Insurance Tax Credit. The information is not, in any way, meant to provide legal advice. If you have questions regarding this legislation your obligations as an employer, please consult legal counsel.