TAX YEAR
2025

Small Business Health Care Tax Credit

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Small Business Health Care Tax Credit

Do You Qualify?

The three steps (next column) assist small employers (business or tax-exempt) that provide qualified health insurance coverage to employees determine if they may qualify for the Small Business Health Care Tax Credit. In general, health insurance must be purchased through a Small Business Health Options Program (SHOP) marketplace.

Employees

The credit is reduced if the employer had more than 10 full-time equivalent employees (FTEs) for the tax year. If the employer had more than 25 FTEs for the tax year, the credit is reduced to zero. Generally, all employees who perform services during the year are taken into account when determining FTEs.

Excluded Employees

Hours, wages, and premiums paid for excluded employees are not counted when figuring this credit. Excluded employees include the owner of a sole proprietorship, partner in a partnership, shareholder who owns more than 2% of an S corporation, shareholder who owns more than 5% of a C corporation, person who owns more than 5% of the capital or profits of any other business that is not a corporation, and family members or a member of the household who qualifies as a dependent of any person listed above.

Seasonal Employees

Seasonal employees who work 120 or fewer days during the tax year are not considered employees in determining FTEs and average annual wages. But, premiums paid on their behalf are counted. Seasonal workers include retail workers employed exclusively during the holiday seasons.

Do You Qualify?

1) Does the employer pay at least 50% of the employee insurance premiums at the single (employee-only) coverage rate?

If yes, continue to Step 2. | If no, stop here. You do not qualify for the credit.

2) Determine the total number of employees (not counting owners or family members).

Full-time employees
(Enter number of employees that work at least 40 hours per week.)

plus

Full-time equivalent employees
(Calculate the number of full-time equivalents by dividing total annual hours of part-time employees by 2,080.)

equals

Total employees.....

If the total number of employees is less than 25, continue to Step 3. | If no, stop here. You do not qualify for the credit.

3) Calculate the average annual wages of employees (not counting owners or family members).

Total annual wages (Medicare wages) paid to employees

divide by

Number of total employees from Step 2

equals

Average wages..... * _____

* If the result is less than $66,600 (2025), the employer may qualify for the Small Business Health Care Tax Credit.

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Full-Time Equivalent Employees (FTEs)

The employer's number of FTEs is determined by dividing the total hours of service for which the employer pays wages to employees during the year (but not more than 2,080 hours for any employee) by 2,080.

Average Annual Wages

The credit is reduced if the employer paid average annual wages of more than $33,300 (2025) for the tax year. If the employer paid average annual wages of $66,600 (2025) or more for the tax year, the credit is zero. Wages, for this purpose, mean wages subject to Social Security and Medicare tax withholding determined without considering any wage base limit. Average annual wages are total wages paid for the tax year divided by the number of FTEs.

Small Business Health Care Tax Credit Worksheet

Company Name: **Year Ended:**

Employee Name[1,2]	*Hours Paid*[3] *During the Year*	*Wages Paid*[3] *(W-2, Box 5)*	*Enrolled in Company Health Insurance Plan? Yes/No*	*Type of Coverage (check one)*		*Annual Insurance Premium Amounts*		
				Single	*Other*	*Total Paid*	*Paid by Employee*[4]	*Paid by Employer*

[1] Do not list any owner or owner's family members.
[2] Indicate any seasonal employee who worked 120 or fewer days during the tax year.
[3] Do not include hours worked or wages paid to seasonal employees. Do include premiums.
[4] Employee paid premiums include any premiums paid pursuant to a salary reduction plan under a IRC section 125 cafeteria plan.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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