



Treasury Inspector General for Tax Administration Office of Audit

AFFORDABLE CARE ACT: EFFORTS TO IMPLEMENT THE SMALL BUSINESS HEALTH CARE TAX CREDIT WERE MOSTLY SUCCESSFUL, BUT SOME IMPROVEMENTS ARE NEEDED

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Highlights

Highlights of Report Number: 2011-40-103 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act were signed into law in March 2010. Among the credits contained in this legislation was the Small Business Health Care Tax Credit (Credit). In general, the Credit is available only to small employers who pay at least one-half the cost of health insurance coverage for their employees. The Credit was designed to encourage small employers to offer health care insurance. Internal Revenue Service (IRS) efforts to implement the Credit were mostly successful, but some improvements are needed.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS adequately implemented and accurately processed the Credit. The Congressional Budget Office estimated the Credit would cost \$37 billion over 10 years and that taxpayers would claim up to \$2 billion of Credit for Tax Year 2010.

WHAT TIGTA FOUND

The IRS timely completed actions to plan for and implement the Credit. The volume of claims for the Credit has been low despite IRS efforts to inform 4.4 million taxpayers who could potentially qualify for the Credit. According to the IRS, as of mid-May 2011, just more than 228,000 taxpayers had claimed the Credit for a total amount of more than \$278 million. Among reasons given by industry groups and professional organizations for the low volume was the time and effort required to claim the Credit. The IRS plans to conduct focus groups to determine why the claim rate was so low.

The Credit is specifically targeted to small employers, but certain taxpayers may claim the Credit even when they have not filed employment tax returns. This occurs because companies can enter into a contractual relationship with a Professional Employer Organization that manages human resources.

The Credit for Small Employer Health Insurance Premiums (Form 8941) does not contain all of the data and calculations needed to verify each step of Credit eligibility and calculation. Based on the information that was available, TIGTA found that both taxpayers and tax practitioners were making mistakes when completing Form 8941.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS track Professional Employer Organization relationships and seek legislation to provide targeted math error authority.

In their response to the report, IRS officials agreed with the recommendations and plan to take appropriate corrective actions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2011reports/201140103fr.pdf>