If you're a small business owner exploring health insurance options, a key question likely on your mind is: **How many employees can I have and still qualify for the Small Business Health Care Tax Credit?** This question is more than just a number; understanding it correctly can save you thousands and steer you to the right purchase method and plan selection.

## Before We Dive In: Defining Key Terms

To make our discussion clear and actionable, let's first define https://homebusinessmag.com/blog/healthcare-insurance/off-exchange-health-insurance-plans/ some important terms.

- **Full-Time Equivalent (FTE)**: A way to standardize employee hours worked. Typically, one FTE is 30 hours or more per week. Part-time hours are combined to equal full-time employees.
- **Small Business Health Care Tax Credit (SB-HCTC)**: A federal tax credit designed to help small businesses offset the cost of providing health insurance to employees.
- **SHOP Marketplace**: The Small Business Health Options Program, an ACA marketplace where businesses can buy group health insurance plans, often with streamlined access to tax credits.
- **Off-Exchange vs. On-Exchange Purchase**: Refers to where you buy your insurance plan. On-exchange means through the government-run marketplace (like SHOP), which can offer access to tax credits. Off-exchange means buying directly from an insurance carrier outside the marketplace.
- **Common-Law Employees**: Workers who meet specific criteria that classify them as employees rather than contractors. The tax credit and SHOP rules only pertain to these employees, not owners or contractors unless they meet specific conditions.

## Why Does Employee Count Matter for the Small Business Health Care Tax Credit?

The Small Business Health Care Tax Credit is specifically designed for businesses with between 1 and 25 **full-time equivalent** employees. More importantly, the credit follows a **sliding scale** based on your exact number of FTEs and average wages.

This isn't just about having less than 25 people on payroll; it's about how many hours they work combined, and even how much you pay on average. The tax credit reduces as you move towards that 25 FTE ceiling and phases out entirely after that.

### The 25 FTE Limit and the Sliding Scale

Number of Full-Time Equivalent Employees Tax Credit Percentage Notes 1 - 10 FTEs Up to 50% of premiums paid (for eligible small employers) Maximum credit at 10 or fewer FTEs 11 - 25 FTEs Reduced credit on a sliding scale Credit phases down as you approach 25 FTEs More than 25 FTEs 0% Not eligible for the tax credit

Example Mini-Scenario:

- A salon owner has 12 employees but some work part-time. Calculating their hours, the total is 9.5 FTEs, qualifying for the maximum tax credit.
- An IT startup employs 30 people working full-time; they do not qualify for the credit.

## Individual vs Small Group Eligibility: Owner-Only and Common-Law Employees

One common confusion is whether the business owner counts as a full-time employee for the tax credit or small group plan eligibility.

- **Owner-Only Businesses:** If you're the sole employee and buying health insurance for just yourself, you are considered an *individual* market purchaser, not a small group. Therefore, the small business tax credit does not apply.
- **Common-Law Employees:** Only common-law employees are counted towards the FTE and employee counts for tax credit eligibility. Independent contractors generally do not count unless they are enrolled in the plan as employees.

The distinction is crucial because many small business owners mistakenly think their spouse or contractor counts towards qualifying. They do not unless properly classified.


## SHOP Marketplace Basics and Availability Limits

The **SHOP Marketplace** is a federal or state-run marketplace that small businesses with 1–50 employees (in most states) can access. It's the easiest way to:

- Compare group plans from multiple carriers
- Qualify for and claim the Small Business Health Care Tax Credit
- Potentially enroll employees directly

SHOP plans must cover all full-time employees (30+ hours/week) and only offer one qualifying plan per metal tier (Bronze, Silver, Gold, Platinum) per carrier in a given county.

### Availability Limits

- Not all states run their own SHOP marketplaces; many use the federal platform at healthcare.gov.
- Businesses with fewer than 25 FTE generally can fully leverage the SHOP Marketplace offer, including the tax credit benefits.
- Businesses with more than 25 employees can still purchase SHOP plans (depending on state rules) but are usually ineligible for the tax credit.

Example Mini-Scenario:

- A bakery with 18 FTE employees in a state that uses the federal SHOP marketplace buys coverage through SHOP to maximize tax credits and simplify renewals.
- A design firm with 28 employees cannot get the SB-HCTC credit but can use the SHOP if available or buy direct from carriers.

## Off-Exchange vs. On-Exchange: Purchase Route ≠ Plan Quality

Many confuse **off-exchange** and **on-exchange** plans with quality or plan options. It's crucial to remember:

- **On-exchange plans** are purchased via the SHOP Marketplace and easily qualify for the tax credit if you meet rules.
- **Off-exchange plans** are direct carrier purchases outside the marketplace platform. While they may have different pricing or networks, their benefit designs are often comparable.
- You can buy a group health plan directly from a carrier (off-exchange) if you don't want to use SHOP or your business is ineligible for the tax credit.
- Tax credits are generally only available when buying on the SHOP Marketplace, not when purchasing off-exchange.

Example Mini-Scenario:

- A startup with 8 employees compares two plans – one on SHOP (with tax credit) and one off-exchange. The premium difference looks small, but the real savings come from the tax credit, prompting them to choose SHOP.

## How to Calculate Your Full-Time Equivalent (FTE) Employees

Calculating FTEs is straightforward but often overlooked. You need this number to see if you qualify for the >25 employee limit and how the tax credit phases out.

1. Count all full-time employees (working ≥30 hours per week) as 1 FTE each.
2. Sum the total number of part-time hours worked by your employees in a month.
3. Divide the total part-time hours by 120 (the monthly equivalent of 30 hours per week × 4 weeks) to get the number of part-time FTEs.
4. Add full-time FTEs to part-time FTEs to get your total.

Example Calculation:

- Full-time employees: 8 (each counted as 1 FTE = 8 FTE)
- Part-time employees total hours: 600 per month (600 ÷ 120 = 5 FTE)
- Total FTE employees = 8 + 5 = 13 FTEs

## Summary: What You Need to Remember

- **Tax Credit Eligibility:** Your business must have 1–25 full-time equivalent employees, pay average wages below a threshold, and provide coverage through the SHOP Marketplace.
- **Employee Count:** Use FTE calculations based on hours worked, not just headcount.
- **Owner Status:** Owner-only businesses are considered individual market buyers and do not qualify for the tax credit.
- **SHOP vs Off-Exchange:** Tax credits are available only when purchasing *on-exchange* (SHOP). Plan quality is not inherently better or worse off-exchange.
- **Renewals and State Specifics:** Remember that SHOP and tax credit rules may vary by state, so always check local marketplace details before purchasing.

## Next Steps: How to Proceed

1. **Calculate your FTE count** based on your employee hours.

2. **Review your average wages** to ensure qualification for the tax credit.
3. **Explore the SHOP Marketplace** for your state at healthcare.gov.
4. **Compare eligible plans** on SHOP and off-exchange offerings.
5. **Consult with a broker** specializing in micro-business health insurance to help navigate county-level carrier choices and renewal realities.

By understanding these nuances, you can optimize your employee health benefits strategy, reduce premium costs via tax credits, and provide quality coverage tailored to your business size.