



## **Will the Small Business Tax Credit help small business owners provide insurance?**

As part of H.R. 3962, the Affordable Health Care for America Act, the House of Representatives is considering a small business tax credit, which supporters claim will help small business owners to provide health insurance to their employees. But will this credit really help?

### The Proposed Credit

The small business health tax credit included in H.R. 3962 would provide a tax credit for 50% of the employer's health care costs. The credit is available for two years.

A business with 10 or fewer employees with a per employee compensation level of \$20,000 or less is eligible for the full credit. The credit phases out in two ways:

- The number of employees from 11 to 25 and
- Compensation between over \$20,000 up to \$40,000.

### Concerns about the credit's effectiveness

The number one challenge facing small employers that provide health insurance is the rising cost. Small businesses tend to operate on a very thin profit margin, so any increase in the cost of doing business – such as annual, double-digit premium increases – presents a real challenge to small business owners.

A tax credit that provides a substantial financial incentive and is available for an extended period of time could help to reduce the cost of health care. A tax credit that does not meet these requirements will have a limited impact, if it has any impact at all.

The credit proposed in H.R. 3962 is of limited value and of limited duration, meaning that its assistance to small business owners is limited. Specifically:

- **The availability of the credit is too short.** A credit that is only available for two years means that every small business owner that claims the credit will see a large spike in their out-of-pocket costs for health care in year three.
- **The wage limits are too restrictive.** Phasing the credit out based on average wages of \$20,000 or less severely reduces the amount of a tax credit available for most small businesses. According to Census data, the average wage of a firm with 10 employees or less is over \$27,000 meaning that the majority of small businesses with few enough employees to claim the full credit will see the value of the credit reduced almost in half based on the compensation limitation.

Small business owners support a tax credit to assist in covering the cost of health insurance. Unfortunately, the credit included in H.R. 3962 does not provide the kind of benefits that will assist small businesses and their employees.