

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

PL 111-148, the Patient Protection and Affordable Care Act, includes a small business tax credit, which supporters claim will help small business owners provide health insurance to their employees. But will this credit really help?

The Proposed Credit

The small business health tax credit included in the Healthcare Reform law provides a 35% tax credit for the employer's healthcare costs. The credit is available from 2010 to 2013 and then a 50% credit is available for two additional years if the employer purchases coverage in the health insurance exchange.

A business with 10 or fewer employees with a per employee compensation level of \$25,000 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 \$25,000 up to \$50,000.

An employer must pay 50% of the cost of the employee's coverage to be eligible for the credit.

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.

The tax credit included in the Healthcare Reform law will help some small businesses. But because of the many conditions attached to the credit its impact is limited, specifically:

- **The availability of the credit is too short.** A credit that is only available for two years inside the exchange means that every small business owner that claims the credit will see a large spike in their out-of-pocket costs for healthcare in year three. While the credit goes away, the healthcare costs do not.
- **The conditions are too restrictive.** Phasing the credit out based on two factors – number of employees and average wages – means that the amount of the credit is reduced faster. In addition, adding conditions like purchasing minimum coverage, paying 50% of the costs, or buying insurance in the exchanges means that fewer businesses will qualify for the credit.

Small business owners support a tax credit to assist in covering the cost of health insurance. Unfortunately, the credit included in the new healthcare law does not provide the kind of long-term benefits that will truly increase affordability for small businesses and their employees.