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Member of Congress

<u>Congressman Wally Herger</u>
Statement for the Record on Introduction of
Equity for Our Nation's Self-Employed Act of 2007
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Mr. Speaker, with nearly 47 million uninsured in America, rising health care costs, and a federal health entitlement system that is simply unsustainable in the long run, America is truly on the verge of a health crisis. Yet despite the looming fiscal insolvency of Medicare and other challenges facing U.S. health care, Congress is preparing now to approve one of the largest expansions of government health care in decades. Mr. Speaker, we must change course in today's debate, and address the root problems facing our health system. And true change can be achieved only through working together on a bipartisan level.

It is for this very reason that I am pleased to join with my colleague from the other side of the aisle, Representative Ron Kind of Wisconsin, in introducing truly collaborative, bipartisan legislation that would help expand health coverage to millions of currently uninsured American taxpayers. Our legislation, the "Equity for Our Nation's Self-Employed Act of 2007," would correct an inequity that currently exists in our tax laws to help make quality health care more affordable for millions of Americans. It achieves this by allowing the self-employed to fully deduct their health insurance premiums for the purposes of both income tax and self-employment tax.

Although many consider themselves "self-employed," only the owners of businesses that are organized as sole proprietorships pay the self-employment tax or SET. Across the U.S. there are more than 21 million sole proprietors who could be subject to some level of self-employment tax. In my own home state of California, there are more self-employed individuals than anywhere else in the country, with roughly 13 percent of the nation's sole proprietorships, or more than 2.8 million self-employed individuals.[1] The vast majority of the businesses owned by self-employed sole proprietors are small and micro-businesses with 10 or fewer employees. Despite their size, however, these businesses generate more than $800 billion in economic activity in the U.S.

The self-employment tax serves as a proxy for federal FICA payroll taxes, which other business combinations like C-corporations, limited liability partnerships and S-corporations withhold and pay on behalf of their employees. The SET tax rate is 15.3 percent, representing both the traditionally withheld employee share of 7.65 percent of wages (for Social Security and Medicare) plus the employer's matching share of 7.65 percent. Unlike other businesses, however, the SET applies to all income generated from the sole proprietorship.

[1] Statistics according to the most recent IRS data (2005).

At the crux of the current disparity is that all businesses apart from sole proprietorships can deduct employee health care premiums as a normal business expenses before taxes. While self-employed taxpayers may deduct 100 percent of their health premiums for regular income tax purposes, sole proprietorships frequently pay more for insurance simply because these expenses are then subjected to the SET of 15.3 percent. One of my constituents, a micro-business owner named Gloria, who lives in Redding, California, reported that she pays about $1,300 more on health insurance each year because of the SET. Another constituent, Tom, from Anderson, pays $900 more for health care each year because of this increased payroll tax. By extending the health deduction to the self-employment tax, we would level the playing field for sole proprietors like Gloria, Tom and the more than 2.8 million self-employed Californians who cannot currently deduct their health coverage costs as a business expense.

Several of my sole proprietor constituents have commented on the rising costs of health care, and how the SET prohibits them from putting this extra amount they pay in taxes to better use expanding their business or purchasing more health coverage for themselves and their employees. Nationwide, more than half of all sole proprietors report that they are unable to purchase health insurance at all, citing affordability as a chief concern. Of these small business owners, more than 80 percent stated they would be more likely to purchase health insurance if it was deductible from payroll taxes through SET deductibility.

Owning and operating a small business in the United States has always been and continues to be extremely risky, with many small businesses not surviving the first five years of operation. However, despite great challenges, small businesses provide nearly two-thirds of all new job creation in our country, employing tens of millions of workers and providing a higher standard of living for millions of American families. The difference between low or high taxes can make or break a firm, and mean the difference between profitability and continued entrepreneurial investment to survive, or going out of business. A recent report by the Small Business Administration's Office of Advocacy confirms this about the SET in particular, finding that extending the health insurance deduction for the SET actually increases the probability that a micro-business will remain in the market.

Mr. Speaker, around 60 percent of America's uninsured individuals work for small businesses that cannot afford to provide coverage. Our simple, bipartisan legislation would help millions of sole-proprietors and their employees better afford coverage by allowing a tax deduction for 100 percent of health insurance expenses from payroll taxes, just like other businesses in the U.S. I thank my colleague from Wisconsin for his leadership on this legislation, and look forward to working to enact it.