



Health Care Reform Will Benefit Small Businesses in Massachusetts

WHY SMALL BUSINESSES NEED HELP

LESS THAN HALF INSURE WORKERS: Only 45% of America's smallest firms currently can afford to offer health care benefits. In fact, 60% of America's uninsured—or 28 million—are small business owners, workers, and their families.

COSTS GOING UP: Insurance costs for small businesses have increased 129% since 2000.

SMALL BUSINESS EMPLOYEES PAY MORE: Small business employees pay an average of 18% more in premiums than those in large firms for the same benefits. Their deductibles are more than double.

HIGHER ADMINISTRATIVE COSTS: Up to 25% of the cost of premiums is for administrative costs for some small business health plans, compared to 10% for large firms.

SMALL BUSINESS TAX CREDITS

THE BILL PROVIDES \$40 BILLION IN TAX CREDITS FOR SMALL BUSINESSES to help them offer employee coverage

The bill provides a sliding scale tax credit to small businesses with fewer than 25 employees and average annual wages of \$50,000 or less that purchase health insurance for employees. The full 50% credit will be available to employers with 10 or fewer employees and average annual wages of \$25,000 or less. To be eligible for a tax credit, the employer must contribute at least half of the total premium cost.

The small business tax credits begin immediately in 2010.

An estimated 60% of America's businesses will qualify for these small business tax credits under the bill.

SUBSIDIES WILL MAKE COVERAGE AFFORDABLE FOR MANY SMALL BUSINESS EMPLOYEES

Many of the small business employees who do not receive insurance through their employer and who purchase insurance through the Commonwealth Connector will have access to sliding-scale subsidies to help them pay their premiums. This premium assistance will help many small business employees who currently find health coverage simply unaffordable finally be able to purchase coverage for themselves and their families. Currently, the Commonwealth Connector provides subsidies to individuals and families up to 300% of the Federal Poverty Level. Because of national reform, effective in 2014, subsidies will be provided to individuals and families up to 400% of the Federal Poverty Level. This means an individual with up to \$43,320 in income and a family of four with \$88,200 in income will be eligible for these subsidies, which will be available starting in 2014.

VAST MAJORITY EXEMPT FROM SHARED RESPONSIBILITY REQUIREMENT

SMALL BUSINESSES WITH FEWER THAN 50 EMPLOYEES ARE EXEMPT FROM SHARED RESPONSIBILITY REQUIREMENT:

In recognition of the fact that providing employee health coverage is simply unaffordable for many of America's small businesses, the bill exempts all small businesses with fewer than 50 employees from the bill's shared responsibility requirement, which begins in 2014. This means that, under the bill, 96% of America's businesses will be exempt from the shared responsibility requirement.

Starting in 2014, small business employees will have access to a Health Insurance Exchange where they will have the group purchasing power of a big business to get lower prices and better quality coverage.

THE SHARED RESPONSIBILITY REQUIREMENT FOR FIRMS WITH 50 OR MORE EMPLOYEES:

Beginning in 2014, employers with 50 or more employees that do not offer health insurance coverage will pay an assessment of \$2,000 per full-time worker if any of their employees obtain subsidies through the Commonwealth Connector. However, to avoid disincentives to hire an additional employee above 49 employees, the bill subtracts the first 30 employees from this payment calculation.

For example: A business of 100 people does not provide health insurance for its employees. 75 of those employees do not have coverage through their spouse, so they access coverage on the Connector. Not all 75 individuals qualify for subsidies because their income is too high. Only 50 employees qualify for subsidies. In that case, the business would be charged \$2000 per employee for 20 employees, per year, because the first 30 are subtracted from the calculation.

SMALL BUSINESSES ARE PROTECTED IN BILL'S TAX ON HIGHEST EARNERS

To help pay for these reforms so that insurance is affordable for small businesses and the middle class, the bill provides a modest increase in taxes for the nation's highest earners. Specifically, the bill slightly increases the Medicare Hospital Insurance (HI) tax on the portion of wages and self-employment income above \$200,000 for individuals and \$250,000 for married couples. It also broadens the taxable base of the HI tax to apply to dividends, interest, and other unearned income for individuals with incomes above \$200,000 and couples with

incomes above \$250,000. In broadening the base to apply to unearned income, the bill explicitly exempts income actively earned by people running a small, closely-held business (for example, active income earned from shares in an S corporation).

Small Business Health Care Tax Credit Scenarios

Example 1: Auto Repair Shop with 10 Employees Gets \$24,500 Credit for 2010

Main Street Mechanic:

Employees: 10

Wages: \$250,000 total, or \$25,000 per worker

Employee Health Care Costs: \$70,000

2010 Tax Credit: \$24,500 (35% credit)

2014 Tax Credit: \$35,000 (50% credit)

Example 2: Restaurant with 40 Part-Time Employees Gets \$28,000 Credit for 2010

Downtown Diner:

Employees: 40 half-time employees (the equivalent of 20 full-time workers)

Wages: \$500,000 total, or \$25,000 per full-time equivalent worker

Employee Health Care Costs: \$240,000

2010 Tax Credit: \$28,000 (35% credit with phase-out)

2014 Tax Credit: \$40,000 (50% credit with phase-out)

Example 3: Foster Care Non-Profit with 9 Employees Gets \$18,000 Credit for 2010

First Street Family Services.org:

Employees: 9

Wages: \$198,000 total, or \$22,000 per worker

Employee Health Care Costs: \$72,000

2010 Tax Credit: \$18,000 (25% credit)

2014 Tax Credit: \$25,200 (35% credit)

No Reduction Due to State Credits. Responding to a number of taxpayer questions about the interaction of the credit with state-level health care tax credits and subsidies, the guidance announces that the new tax credit will not be reduced by a state health care tax credit or subsidy (except in limited circumstances to prevent abuse of the credit). In particular, an employer that receives such a state tax credit or subsidy will also receive the full federal credit based on its entire contribution so long as the federal credit does not exceed the employer's net contribution. According to lists compiled by the National Conference of State Legislatures, about 20 states offer these benefits.

Dental and Vision Coverage Qualify. The guidance clarifies that small businesses can receive the credit not only for traditional health insurance coverage but also for add-on dental, vision, and other limited-scope coverage. The employer must meet the requirements for limited-scope coverage that are similar to those that apply for single coverage: the employer must offer to pay at least 50% of the premium.

Employers Can Choose Most Favorable Method of Determining Hours Worked. Because the tax credit's matching rate is highest for employers with 10 or fewer full-time equivalent employees (FTEs), the number of hours worked is an important factor in calculating the credit. The new guidance allows employers to choose among 3 different methods of determining hours to minimize their bookkeeping duties while receiving the maximum tax credit for which they are eligible. Employers can look at actual hours of service, or can use simple rules of convenience to estimate hours based on total days or weeks of service.

Transition Relief for 2010 Formalized. Because the tax credit is effective for 2010 but was not enacted until March 23, some small businesses that are providing health insurance in 2010 may not meet all the requirements for a qualifying health insurance offer. To ensure that these businesses benefit from the credit, the Administration is providing special transition relief for tax year 2010. The transition rules simplify the requirements for what constitutes a qualifying health insurance offer while maintaining the core requirement that an employer make a significant contribution to the employee's coverage. The transition relief was first mentioned in FAQs released on the IRS website on April 1, and has now been formalized in the new notice.

Example 4: Benefit for Offering Limited-Scope Coverage Manufacturing Firm with 10 Employees Gets \$3,500 More for Offering Vision and Dental Coverage

Acme Air Conditioning, LLC:

Employees: 10

Average Annual Wage: \$25,000

Employer Cost for Regular Health Insurance: \$60,000, or \$6,000 per worker

Employer Cost for Add-On Vision and Dental Plan: \$10,000, or \$1,000 per worker

Tax Credit for Regular Health Insurance: \$21,000 (35% of \$60,000)

Additional Tax Credit for Vision and Dental Plan: \$3,500 (35% of \$10,000)

Total Tax Credit: \$24,500 (35% of \$70,000)

Key Facts about the Small Business Health Care Tax Credit

Available Immediately. The credit is effective January 1, 2010. As a result, small businesses that provide health care for their workers will receive immediate help with their premium costs, and additional firms that initiate coverage this year will get a tax cut as well.

Broad Eligibility. The Council of Economic Advisors estimates that 4 million small businesses are eligible for the credit if they provide health care to their workers. Qualifying firms must have less than the equivalent of 25 full-time workers (e.g., a firm with fewer than 50 half-time workers would be eligible), pay average annual wages below \$50,000, and cover at least 50 percent of the cost of health care coverage for their workers.

Substantial Benefit. The credit is worth up to 35 percent of a small business's premium costs in 2010. On January 1, 2014, this rate increases to 50 percent.

Firms Can Claim Credit for Up to 6 Years. Firms can claim the credit for 2010 through 2013 and for any two years after that.

Non-Profits Eligible. Tax-exempt organizations are eligible for a 25 percent tax credit in 2010. In 2014, this rate increases to 35 percent.²

Gradual Phase-Outs. The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

Premium Cost Eligibility. To avoid an incentive to choose a high-cost plan, an employer's eligible contribution is limited to the average cost of health insurance for small businesses in that state.

Extensive Outreach. The Administration has initiated a nationwide educational campaign to ensure small businesses and tax preparers are informed about the credit. Last month the IRS sent out over 4 million postcards to employers that may qualify, and it is also spreading the word at over 1,000 tax workshops and small business forums, and through its email list of 175,000 tax professionals.