



**Looking At Solutions to Assist Small Businesses  
in  
Affording Health Coverage**

August, 2007

*"Among uninsured workers, nearly 63% are either self-employed or work in small businesses."*

*Todd Stottlemyer, President NFIB*

*"People who reported working in small firms and their dependents accounted for 15% of the under-65 population but 28% of the uninsured."*

*Chris Peterson, CRS Issue Brief 96-891*

**I. Tax-Related Changes That Would Assist Small Businesses**

**1. Health Care Tax Credit for Individuals**

Create a refundable and advanceable health care tax credit for owners and workers in small businesses.

- 46 million are self-employed or work for companies with fewer than 25 workers.
- 65 million are self-employed or work for companies with fewer than 100 workers.

It can also be further narrowed in cost and scope based on income.

- 18 million earn less than 300% of poverty and are self-employed or work for companies with fewer than 25 workers.
- 26 million earn less than 300% of poverty and are self-employed or work for companies with fewer than 100 workers.

The number of uninsured by firm size is (CRS):

Under 10	13.1 million
10-24	5.3 million
25-99	5.4 million
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	23.8 million

One possibility is to incorporate a refundable/advanceable health credit in the reauthorization of the TAA tax health care tax credit.

**2. Health Care Tax Credit to Small Businesses Who Provide Coverage**

### **3. Tax Equity for those Purchasing Outside of the Employer-Sponsored Market**

- 36% of workers do not have employer-sponsored coverage.
- Most of these workers not only pay 100% of the cost of their health insurance, but they also pay taxes on the income used to purchase of health insurance.

### **4. Tax Equity for the Self-Employed**

Business owners must pay payroll (Medicare/Social Security) taxes on their health insurance, whereas those with employer-sponsored coverage do not. This affects approximately 20 million self-employed individuals (sole proprietors).

- The self-employed pay an average of \$11,480 per year for family health coverage. (Kaiser Foundation). Because they cannot deduct this as an ordinary business expense, they pay a 15.3 percent payroll tax on their premiums.  $\$11,480 \times 15.3 \text{ percent} = \$1,756.44$  in extra tax

A bipartisan bill to correct this inequity has been introduced by U.S. Senator Jeff Bingaman (D-NM) for the last several Congresses. In September 2007, Senators Bingaman will reintroduce in the Senate and Representatives Ron Kind (D-WI) and Wally Herger (R-CA) will introduce in the House.

### **5. Give Small Business Owners Access to an HRA**

Allow self-employed business owners to participate in their company's Health Reimbursement Arrangement (HRA). Current law allows the owner to set up an HRA to provide benefits to bona fide employees. Their employees can incur allowable medical expenses, which includes premium costs, and then submits those costs to the owner to obtain reimbursement. However, the sole proprietor owner does not receive any benefit from an HRA for his own health expenses. (See 7/30/07 WSJ article) Expanding the definition of a bona fide employee to include sole proprietor owners and S corporation shareholders of 2% or greater will assist in making health care more affordable to millions of the working insured.

### **6. Clarify that Small Business Employees Use HRA Funds to Purchase Health Insurance.**

Currently, there is confusion about the Department of Labor's views and so some states -- notably Texas -- are not allowing this. (See WSJ article)

Allow small employers to contribute toward health insurance costs for their employees (without triggering group coverage rules) and excluding those contributions from income tax.

## **7. Allow Insurance Premiums to be Paid with HSA Account Dollars**

### **II. Helping The Hard-To-Insure**

#### Support High-Risk Pools

- Exist in 33 states;
- Help almost 200,000 people get coverage, most of whom work in small businesses and lack group coverage.

Resume funding (\$75 million) for high-risk pools (currently not funded in FY 2007). The Senate 2008 Labor HHS appropriations bill has no funding for high risk pools. The House has \$50 million in their bill.

### **III. Other Important Ways to Assist Small Businesses**

- Health Transparency
- Health IT

## **IV. CAHC's Recommendations on Strategy to Pass Legislation to Provide Relief for Small Businesses by the End of 2007**

### States Leading in Pooling & Market Reforms

There is a torrent of activity at the state level to test new approaches to expanding coverage. State can and are making a variety of changes that affect pooling and insurance market. However, they cannot help small businesses owners and employees with tax equity or relief via the tax code and they have limited means to help with the barrier of affordability.

For that reason, it makes sense that Congress would prioritize the tax changes as a way of providing relief to small businesses.

### Tax Changes Garnering Consensus

With this in mind, CAHC recommends that the short-term goal for Finance Committee members should be crafting a basic package of tax changes that could assist small businesses. We perceive that grounds for consensus on tax changes is rapidly evolving amongst the stakeholders, as well as members of the Senate and the Administration.

For this reason, CAHC believes there is a far better chance for achieving some positive incremental tax change that could provide immediate relief for small businesses in the tight time frame of the remainder of the year without trying to also solve the challenges of other health reform proposals such as market reform and pooling.

### Small Business Community in Dire Need of Assistance

CAHC members are looking for results that help small businesses on healthcare,

as are both Democrats and Republicans. In particular, our small business members – including the National Association for the Self-Employed, the International Franchise Association, the National Association of Women Business Owners, Women Impacting Public Policy, and Communicating for Agriculture --- are hearing that their members are **weary** of waiting for Congress to deliver some relief in this area. Their frustration and dire need for assistance runs deep and wide setting the stage for political ramifications, for good or ill.

#### Perfect Should Not Be Enemy of Good

We believe that key Democrats and Republicans who are motivated first and foremost to deliver results for their constituents have a unique opportunity to make changes. Do we think a package of tax changes will be the perfect or comprehensive solution? No. But, we recall that Chairman Baucus quoted a wise proverb in the context of the SCHIP bill, “Don’t let the perfect be the enemy of the good.” We believe that this is equally true in this arena.

#### For the Politically Motivated

Our mission is to see positive results occur to allow for relief of skyrocketing health care costs. Yet, we understand the political landscape that currently exists and the temptation to hold off action in order to set the state for the impending election year. We would like to propose that in purely *political* terms, choosing inaction is highly risky. Inaction could result in a backlash for incumbents, regardless of party or branch of government.

A far better *political* equation (as well as policy solution) for both parties is to concentrate efforts on achieving results by the end of 2007 (most easily with a package of carefully crafted tax improvements for small businesses) and let each party spin the success to their own advantage. Certainly it is easier to find political opportunity with those who feel that their needs have been heard and addressed than with those who are highly frustrated.

#### Seize the Window of Opportunity

In closing, we urge those many Members and staff who are deeply committed to promoting positive changes for small businesses to move forward on the good – the achievable – and we pledge our assistance toward those efforts.

*Coalition for Affordable Health Coverage Members*

*AdvaMed, Aetna, America's Health Insurance Plans, American College of Cardiology, American Hospital Association, American Medical Association, American Osteopathic Association, Assurant Health, American Legislative Exchange Council, Bayer, CareGain, Communicating for Agriculture, Federation of American Hospitals, GlaxoSmithKline, Healthcare Leadership Council, HealthEquity, International Franchise Association, National Association of Health Underwriters, National Association of Manufacturers, National Association for the Self-Employed, Pharmaceutical Research and Manufacturers Association, UnitedHealth, US Chamber of Commerce, Women Impacting Public Policy, and Wyeth.*

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