

March 23, 2023

Congressman Jason Smith  
Chairman  
Committee on Ways and Means

Ranking Member Richard Neal  
Ranking Member  
Committee on Ways and Means

Congressman Vern Buchanan  
Chairman  
Subcommittee on Health  
Committee on Ways and Means

Congressman Lloyd Doggett  
Ranking Member  
Health Subcommittee  
Committee on Ways and Means

Dear Chairs and Ranking Members:

The undersigned organizations write to urge you to improve health coverage for small business employees.

Small businesses are struggling just to stay in business. COVID lockdowns shut their doors and harmed their bottom lines. Inflation is now eating into buying power and driving up costs for everything. Health costs are increasing faster than inflation, putting coverage out of reach for too many. As a result, many small businesses struggle to attract and retain talented employees because they cannot afford the same wages and benefits most large employers offer.

Most large firms offer coverage to their employees. And while small business accounts for more than 60 percent of new jobs, the smaller the company, the less likely they are to offer health insurance. A full 97 percent of firms with more than 50 employees provide coverage for their workers. But for those companies with less than 50 employees, the offer rate is just 31 percent.

More than two-thirds of the employees in these businesses go without coverage or flood the Obamacare or Medicaid markets. It is estimated that as much as half of small business employees get coverage on Obamacare's exchanges. Here they pay deductibles that are twice as expensive as on the small group market (\$4,500 versus \$2,000 in 2021). Taxpayers also pay more. CBO estimates subsidies on the exchanges are nearly three times as much as the tax benefits for employer-sponsored insurance (\$5,820 versus \$2,000 in 2022).

If small business employees enroll in Medicaid, they experience significant access challenges, including not receiving or delaying medical care for health problems.<sup>1</sup>

For small businesses, cost is the biggest factor in their ability to provide coverage to employees. According to a recent poll of small business owners by the Small Business Entrepreneurship Council, more than half (55%) of small business leaders cite the high costs of health insurance as a barrier to offering health insurance benefits. Small businesses are also challenged to find relevant health care benefit packages. Only

---

<sup>1</sup> According to a [November 2021 MACPAC report](#), "Adults with Medicaid coverage were significantly less likely to report having a usual source of care than adults with private coverage. They were also significantly more likely to report not receiving or delaying medical care, prescriptions, and dental services compared to adults with private coverage."

1 in 5 (17%) small business leaders strongly agree that the employer health care solutions available to them have kept up with the changing times.

Obamacare created a small business tax credit to help offset coverage and to help small businesses attract and retain talent. The credit, however, could have been better designed.

- It is only available to firms with less than 25 employees with average wages of \$50,000 or less. This creates an incentive to keep wages low.
- In addition, the credit can only be used for ACA plans purchased on the SHOP exchange. Many states no longer support SHOP. As a result, small businesses may be eligible for a credit they cannot use anywhere.
- Plus, the credit can only be used in two tax years. It then is unavailable forever to the business, even though health coverage costs persist.

The credit comes with so many hoops and hurdles that just a few thousand small businesses use them. In the last year data is available, the IRS estimates just 6,952 businesses took the credit, totaling just \$30 million in help.

This makes little sense. The poorly designed credit encourages employees to access less comprehensive coverage but more expensive to consumers and taxpayers. Congress must do more to defend and support small business owners and their employees and expand good, private coverage options. We urge Congress to reform the ACA's Small Business Tax Credit.

- The credit should remain at 50 percent and be eligible to all firms with 50 or fewer employees, including the self-employed, and without a wage cap
- A flat dollar credit should be available to workers and their dependents to offset their share of premium and out-of-pocket costs
- The credit should be allowed for any major medical plan available in the state's small group market, including ICHRAs, QSHRAs, and HSAs
- The credit should be available on an annual basis

We are encouraged by your focus on supporting small businesses. They are the engine of economic growth and jobs. To help the economy grow and small businesses thrive, Congress should reform the health tax credit to assist small businesses in providing better, less expensive coverage to their employees.

Sincerely,

Council for Affordable Health Coverage  
National Federation of Independent Business (NFIB)  
National Retail Federation  
The National Grange  
Small Business & Entrepreneurship Council