FIVE UNAFFORDABLE FACTS ABOUT THE NEW HEALTHCARE LAW: THE PATIENT PROTECTION AND AFFORDABLE CARE ACT

1. The tax credit is *not* a panacea for small businesses

Often cited as the cure-all for small businesses, the small business tax credit will do little to nothing to make purchasing insurance more affordable for small firms. A tax credit that is poorly structured is not going to provide sustainable and long-term relief from high healthcare costs.

- Very few small businesses will actually qualify for the tax credit, early estimates by CBO cite that just 12 percent of the small business population would benefit in any way.
- The credit is very restrictive and puts small business owners through a series of complicated "tests" to determine the actual amount of the credit. Three conditions must be met for small businesses to qualify for any portion of the credit:
  1. *Business size* – Very few small firms will receive the full credit (only firms with 10 employees or less). For firms with 11-25 employees, the credit is reduced per employee. Firms with more than 25 employees get NO credit.
  2. *Average employee wages* – The credit is tied to the average wage of workers. Only firms who pay their workers $25,000 or less are eligible for the full credit. The credit is reduced as the average wage goes up, stopping at $50,000. (Note: Average wage for a firm with 10 or fewer employees is approximately $27,000.)
  3. *Employer contribution* – Only firms covering 50 percent or more of insurance costs will be eligible.
- The credit is only available for a maximum of six years, but healthcare costs will continue to increase well after those six years.

2. A tax on small business health insurance plans

Messaged as a "health insurance fee," this tax is actually a tax on small business. The new tax is structured as an annual fee on insurers and it does not expire. The annual "fee" begins at $8 billion in 2014 and steadily increases to $14.3 billion in 2018. In subsequent years, this fee remains at $14.3 billion annually added to whatever the rate of premium increase is for that year. One thing health insurers (and the CBO) have made clear: new taxes on them mean new costs passed on to customers. Small businesses will be paying for this new tax.

- *How it works:* An insurer's portion of the annual tax will be determined based on their market share. Insurers aren't simply going to absorb this new, expensive tax.
- These new costs will be passed solely onto the fully-insured market (where nearly all small businesses buy their insurance) because Congress exempted self-insured plans (big business and labor unions are exempt).
- Early estimates from policy analysts show family premiums are expected to go up at least $500 per year.
- *Simply put:* This is not a tax insurers will be paying. This is a tax on small businesses' health insurance plans.
- Small businesses already suffer from high and volatile costs increases; a new tax like this doesn't help to reduce future costs.

3. Increase the tax paperwork costs on small businesses

The so-called "corporate reporting" requirement will place a new and enormous tax-filing burden on all small business owners. The cost of complying with the new filing requirements will increase the cost of doing business and falls disproportionately on small business owners.

- Businesses will have to send Form 1099s for every business-to-business transaction of $600 or more – a tremendous new paperwork burden.
- The costs associated with tax paperwork (on average, more than $74 per hour) is the most expensive paperwork burden that the federal government imposes on small business owners.
- The cost of tax compliance falls heavily on small business and is 66 percent higher for a small business compared to a large business.
- Complying with the tax code is especially burdensome to small business owners, because they lack in-house finance departments like most large businesses. This means the burden to comply with the paperwork is either handled by the owner or outsourced to an accounting firm.

4. An unprecedented increase in Medicare payroll tax

Since its creation, payroll taxes that fund Medicare programs have been dedicated specifically to funding Medicare. Not only does H.R. 3590 increase the Medicare payroll tax to 2.35 percent but it uses the additional revenue to pay for non-Medicare programs, creating a dangerous precedent to use payroll taxes to pay for more non-Medicare programs in the future.

- The bill adds a new tax on income over $200,000 for individuals ($250,000 for joint filers). Adding to the problem, wages are not indexed for inflation, meaning that more small businesses will face this tax increase each year.
- Since 75 percent of small business owners pay their taxes at the individual level, this tax will hit the business income of many small business owners.
- The businesses most likely to see the tax increase are those that employee between 20 to 200 workers. These businesses account for more than one-quarter of the American workforce.

5. A new Medicare tax on non-payroll income

This new tax continues the unprecedented trend of dedicating Medicare tax revenue to non-Medicare programs and also expands the tax to additional sources of income.

- Medicare has traditionally been funded by taxes paid on a worker's wages. The new 3.8 percent tax on those reporting $200,000 in income ($250,000 for joint filers) will, for the first time, apply to non-wage income such as capital gains, rents, interest, royalties and dividends. (75 percent of small business owners pay their taxes at the individual level).
- Ninety-five percent of small business owners own real estate. Whether the real estate is sold for a profit or rented to another business, this income will now be subjected to an additional 3.8 percent tax.
- This new tax will deter investment in businesses and other profit-earning ventures.