Small Business Tax Credit: Less Than Meets the Eye

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NFIB Healthcare Bulletin (5/13/10)

The new Small Business Health Insurance Tax Credit probably won't induce many businesses to offer insurance to their employees. Firms that qualify for the credit ought to take it, but most who do will be firms who were going to offer coverage anyway.... People who use **NFIB's online tax credit calculator** tend to say, "I didn't know the credits were so small." At most, a credit offsets 35% of the business's portion of the insurance premium. But that maximum only applies to firms (and not all firms) with 10 or fewer employees whose average wages are no more than $25,000 per year. For such micro-firms, the other 65% of the cost may still be difficult or impossible to cover. Plus, there are at least eight other factors that can make the credit less valuable than that 35%:

(1) INSUFFICIENT CONTRIBUTION, NO CREDIT: If the business pays less than 50% of the cost of the insurance premiums, then it is not eligible for any credit at all.

(2) MORE EMPLOYEES, SMALLER CREDIT: As the firm adds more employees, the credit shrinks as a percentage of insurance cost. With 10 employees at $25,000 per year, the credit covers 35% of the premium costs. Increase that to 15 employees, and it drops to 23%. At 20 employees, it's just under 12%, and at 25 employees, there is no credit at all.

(**3) HIGHER WAGES, SMALLER CREDIT:** As the firm raises wages, the credit percentage shrinks. With 10 employees at $25,000, the credit is 35%. At $35,000, it's down to 21%. At $50,000, no credit. (Note: when firm size and wages both rise, the credit drops faster. Example: with 19 employees earning $35,000 on average, the credit is gone.)

(4) BETTER INSURANCE, SMALLER CREDIT: The credit percentage is applied either to the business's premium contribution or to the "average" firm's contribution (determined by the Department of Health and Human Services), whichever is smaller. So if the firm is more generous than other firms with its insurance, its percentage is smaller than what the calculator suggests.

(5) MORE PART-TIMERS, SMALLER CREDIT: Part-time workers are combined into full-time equivalents for the credit calculation. So every 40 hours per week of part-time labor counts the same as one additional full-time employee.

(6) CREDITS TODAY, INSURANCE FOREVER: The credit lasts at most six years, whereas health insurance costs last forever. On the up side, the credit percentages will increase in 2014, with the maximum rising from 35% to 50%.

(7) FOUR YEARS, NEW PLAN: Beginning in 2014, businesses will only be able to receive the credit on insurance plans sold through the new exchange. So businesses using grandfathered plans up to that point will have to change plans in order to receive the credit for the full six years.

(8) FAMILY MEMBERS, NO CREDITS: Members of the business owner's family are excluded from the credit calculation and are ineligible for the credit itself. For many small family enterprises, this will dramatically reduce the available credit, especially since "family" includes children, parents, grandparents, siblings, aunts, uncles, in-laws, and others.

Again, any business that qualifies for the tax credit should take it. But it's hard to imagine that this fairly small, time-limited, multi-caveat credit will affect offer rates very much.