



STATEMENT FOR THE RECORD

**BEFORE HOUSE SUBCOMMITTEE ON OVERSIGHT OF THE COMMITTEE
ON WAYS AND MEANS**

ON

**SMALL BUSINESS HEALTH INSURANCE TAX CREDIT CREATED BY THE
PATIENT PROTECTION AND AFFORDABLE CARE ACT**

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This testimony is submitted in support of the small business perspective on the Patient Protection and Affordable Care Act and, specifically, the impact of the small employer healthcare tax credit provision on small businesses, our nation's chief job creators.

Small Business Majority is a national nonpartisan small business advocacy organization founded and run by small business owners and focused on solving the biggest problems facing small businesses today. We represent the 28 million Americans who are self-employed or own businesses of up to 100 employees. Our organization uses scientific opinion and economic research to understand and represent the interests of small businesses.

The Affordable Care Act will help reduce the cost of insurance and medical care while making coverage affordable, fair and accessible. The small business healthcare tax credit is an important provision within the act that will help lower costs for small employers. Granted, the tax credit is not a panacea for high health insurance costs. It alone will not give all small business owners the relief they need. However, it is one weapon small business owners should include in their arsenal to fight ever-rising premium costs.

Passage of the Affordable Care Act was critical for small businesses; they are in desperate need of relief from the high costs of health insurance. Our research shows that reforming our broken healthcare system has been and still is one of small business owners' top concerns, and that the majority of small employers believe reform is needed to fix the US economy. It also shows that small businesses support key provisions in the law, specifically ones that help them better afford insurance, such as tax credits and insurance exchanges, and those that contain costs. Controlling skyrocketing costs is essential to ensuring small businesses' ability to obtain high-quality, affordable healthcare for themselves, their families and their employees. Our research also shows

that absent reform, these costs would continue to escalate, undermining small businesses' success and our economic recovery. The new law goes a long way toward fixing our broken system and stemming these spiraling costs, while helping to create jobs and stimulate the economy.

Our research, which is discussed in more detail below, shows the impact this legislation and the tax credit provision in particular will have on small businesses. In July 2010, Small Business Majority partnered with Families USA to determine the number of small businesses eligible for a tax credit on their 2010 tax returns, one of the key provisions of the Affordable Care Act.

- We found that more than 4 million small businesses would be eligible to receive a tax credit for the purchase of employee health insurance in 2010. ¹

We also commissioned a national survey of 619 small business owners to determine their views on the tax credits and insurance exchanges, another crucial provision of the Affordable Care Act for small businesses. The survey, which was released in January 2011, found that:

- Both the tax credits and the exchanges, once they take effect, make small business owners more likely to provide healthcare coverage to their employees;
- One-third of employers who don't offer insurance said they would be more likely to do so because of both the small business tax credits and the insurance exchanges;
- 31% of respondents who currently offer insurance said the tax credits and the exchanges will make them more likely to continue providing coverage. ²

However, the poll also found that the *vast majority of small business owners don't know the tax credits or exchanges exist* to help them afford coverage.

As Congress holds hearings critical of the Affordable Care Act, it's important to understand the consequences doing nothing would have had on small businesses and our fragile economy.

- Small businesses wouldn't have \$4 billion per year in healthcare tax credits and many small business protections;
- Small businesses would have no ability to pool their buying power through state insurance exchanges, and the various cost controls the ACA puts in place would not exist;
- Tough enforcement measures in the law, which are saving billions in Medicare waste, fraud and abuse, would also not exist. This would result in higher taxes for employers and employees to fund Medicare, and higher taxes mean fewer jobs.

¹ Families USA and Small Business Majority, A Helping Hand for Small Businesses: Health Insurance Tax Credits, July 2010, <http://smallbusinessmajority.org/small-business-research/tax-credit-study.php>.

² Small Business Majority, Opinion Survey: Small Business Owners' Views on Key Provisions of the Patient Protection and Affordable Care Act, Jan. 4, 2011, <http://smallbusinessmajority.org/small-business-research/small-business-healthcare-survey.php>.

These are just some of the disastrous consequences our healthcare system absent the Affordable Care Act would have on small businesses—consequences that are too severe on our nation’s primary job creators. Small businesses create 65% of new jobs in our country. Spending less on health insurance will help them generate larger profits, which will help speed our journey down the road to economic recovery.

This testimony highlights what we’ve learned both through our research about small business owners’ opinions on the tax credits and the economic impact the Affordable Care Act will have on small businesses. The key issues are:

- How the Affordable Care Act is helping small business owners now;
- Educate small business owners about provisions such as the tax credits to help them thrive;
- Healthcare costs are the No. 1 problem facing small businesses; and
- The status quo was unacceptable—doing nothing would thwart economic growth and job creation.

How the Affordable Care Act Is Helping Small Business Owners Now

Our research shows that small business owners are more likely to provide insurance to their employees because of the tax credits and exchanges provided through the new healthcare law. As mentioned in the introduction, our most recent research includes a national survey of 619 small business owners that was released on Jan. 4, 2011.³ We wanted to gauge how entrepreneurs view two critical components of the Affordable Care Act: the small business tax credits—a provision allowing businesses with fewer than 25 employees that have average annual wages under \$50,000 to get a tax credit of up to 35% of their health insurance costs beginning in tax year 2010—and health insurance exchanges—online marketplaces where small businesses and individuals can band together to purchase insurance starting in 2014. The survey’s key findings include:

- One-third (33%) of employers who don’t offer health insurance said they would be more likely to do so because of the small business tax credits;
- 31% of respondents—including 40% of businesses with 3-9 employees—who currently offer insurance said the tax credits will make them more likely to continue providing insurance;
- One-third (33%) of respondents who currently do not offer insurance said the exchange would make them more likely to do so;
- The same is true for those who already offer insurance, with 31% responding that the exchange would make them more likely to do so;
- **However, most respondents are not familiar with the exchange or the tax credits; only 31% of respondents are familiar with the exchange and 43% are familiar with the tax credits.**

¹⁰ Small Business Majority, Opinion Survey: Small Business Owners’ Views on Key Provisions of the Patient Protection and Affordable Care Act, Jan. 4, 2011, <http://smallbusinessmajority.org/small-business-research/small-business-healthcare-survey.php>.

To help inform small business owners about the tax credits and other provisions in the law that affect them, Small Business Majority has been holding Listening Tours, webinars and other events across the nation. Through our conversations with small business owners at these events, we've found anecdotally exactly what our scientific opinion research found: the vast majority of small business owners don't realize the tax credits exist to help them better afford insurance, but when they learn about them they like what they hear and want to know more.

We recently spoke with a small business owner in San Francisco, CA, who had never heard of the tax credits until we informed her of them. She was very intrigued by them and upset her CPA hadn't told her about them when they filed her taxes. She recently had to drop health insurance for her employees, and if she had known she might be able to get a tax credit through the new law, it could have helped her continue providing insurance. She planned on talking to her accountant about the tax credit immediately to see if she might be able to reinstate her employees' policies.

We believe that once small business owners become more familiar with the new law and specific provisions like the small business tax credits, they will understand the financial benefits and cost savings it provides. In fact, a Kaiser Family Foundation study conducted in January 2010 found that although the public was divided overall about reform, they became more supportive when told about key provisions. After hearing that tax credits would be available to help small businesses provide coverage to employees, 73% said it made them more supportive, and 63% felt that way after learning that people could no longer be denied coverage because of preexisting conditions.⁴

The huge number of small businesses eligible for a credit on their 2010 tax returns shows how wide-ranging the benefits of the ACA are: Small Business Majority and Families USA's study on the number of small businesses eligible for a tax credit on their 2010 tax returns shows that more than 4 million small businesses are eligible.⁵ That equates to 83.7% of all small businesses in the country. Perhaps even more encouraging is that more than 90% of small businesses in 11 states are eligible to receive the tax credits, with nearly 1.2 million small businesses nationally eligible to receive the maximum credit.

While the initial uptake on the credits was low, this is largely due to small business owners' overall unfamiliarity with this provision of the Affordable Care Act. What's more, opponents have spent tremendous time and resources discouraging small business owners from taking the credits for political purposes, which essentially amounts to them discouraging small business owners from taking free money. Whether it's a couple hundred dollars or thousands, any extra money helps during this unforgiving economic climate. We should be doing all we can to educate small business owners about this provision and encourage them to apply for it. It's also encouraging the IRS is taking steps to simplify the credit for small employers so more firms can reap its benefits.

⁴ Kaiser Family Foundation, Americans Are Divided About Health Reform Proposals Overall, But the Public, Including Critics, Becomes More Supportive When Told About Key Provisions, Jan. 22, 2010, <http://www.kff.org/kaiserpolls/kaiserpolls012210nr.cfm>.

⁵ Families USA and Small Business Majority, A Helping Hand for Small Businesses: Health Insurance Tax Credits, July 2010, <http://smallbusinessmajority.org/small-business-research/tax-credit-study.php>.

Educate Small Businesses about the Law to Help them Thrive

Critics of the new law have wasted no time in attempting to tear it down, yet have offered no pragmatic solutions on how to address the core problem—the excessive cost of health insurance. As mentioned above, they’ve also spent considerable time attacking the tax credits. The recent release of data showing how many small employers received the tax credit should be a wake-up call for everyone invested in small businesses and our economy. Small business owners are the backbone of this country. They will help pull the economy out of its slump. But they can’t do it without help. All stakeholders should be educating small businesses about provisions that will put money back in their pockets now, which will help them grow their businesses and with it the economy. The small business tax credit is one of those provisions.

Thanks to the tax credits, small businesses received \$278 million back on their health insurance premiums this year. One of those small business owners is Mark Hodesh, owner of Downtown Home & Garden in Ann Arbor, Michigan. For Mark, 2010 was a good year. His best ever, in fact. Mark saw his business blossom, was able to offer health insurance to his 12 full-time employees and even managed to grow by adding a person to his staff.

While business savvy undoubtedly contributed to his bustling shop’s bottom line, it was the small business tax credits that allowed him to hire another person. Mark, who pays 75% of his employees’ healthcare premiums—\$60,000 a year—was able to claim \$15,000 on his tax return this year. Knowing that money was coming back gave Mark, who had been on the fence about hiring another person, the confidence he needed to make his move. His new employee has become a tremendous asset to the store and a big part of its success in 2010. What’s more, his new worker was unemployed before going to work for Mark. Now she’s paying taxes and contributing to improving the economy.

Healthcare Costs are the No. 1 Problem Facing Small Businesses

National surveys of small business owners consistently show that the cost of health insurance is one of their biggest overall problems. Small businesses are at a disadvantage in the marketplace largely because their small numbers make rates higher. According to research supported by the Commonwealth Fund, on average they pay 18% more than big businesses for coverage.⁶ Small businesses, including the self-employed, need a level playing field to succeed and continue as the job generators for the U.S. economy.

We hear stories every day from small business owners who can’t get coverage because they’ve been sick in the past or the health plans they are offered are outrageously priced. Many other businesses maintain coverage for employees, but the cost is taking a bigger and bigger chunk out of their operating budgets. It’s common to hear about double-digit premium increases each year, eating into profits and sometimes forcing staff reductions. This is where the small business tax credits can provide some relief. If every small business owner eligible for a credit applied for it, it could help lower a significant number

⁶ J Gabel et al, Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii is Up, Wyoming is Down, *Health Affairs*, May/June 2006, <http://content.healthaffairs.org/content/25/3/832.full>.

of employers' costs—even if it's just by a couple hundred dollars. As a small business owner myself, I know every little bit counts for small firms.

We know small business owners want to offer health coverage, and our surveys show that most of them feel they have a responsibility to do so. They need to know about any provision available to help them do so. Small Business Majority conducted surveys of small business owners in 17 states between December 2008 and August 2009.⁷ Our key findings included:

- An average of 67% of respondents said reforming healthcare was urgently needed to fix the U.S. economy;
- An average of 86% of small business owners who don't offer health coverage to their employees said they can't afford to provide it, and an average of 72% of those who do offer it said they are struggling to afford it.

It should be noted that respondents to these surveys included an average of 15% more Republicans (39%) than Democrats (24%), while 27% identified as independent.

The exorbitant cost of insurance means that many small businesses are forced to drop coverage altogether. According to the Kaiser Family Foundation, 54% of businesses with fewer than 10 employees don't offer insurance.⁸

This makes small business employees a significant portion of the uninsured population. Of the 45 million Americans without health insurance in 2007, nearly 23 million were small business owners, employees or their dependents, according to Employee Benefit Research Institute estimates.⁹ And nearly one-third of the uninsured—13 million people—are employees of firms with less than 100 workers.¹⁰

With staffs of 5, 10 or even 20 people, small businesses are tight-knit organizations. Owners know their employees well and depend on each employee for their businesses' success. They don't want to see their valuable employees wiped out financially by a health problem, or ignore illnesses because they can't afford to go to the doctor.

The Affordable Care Act addresses all these issues and more. Without reform, we will impede our overall economic growth. Small businesses with fewer than 100 employees employ 42% of American workers.¹¹ Traditionally, small businesses lead the way out of recessions. Continuing to address the healthcare crisis by implementing the Affordable Care Act and educating our primary job creators about provisions that can help them is essential to our vitality as a nation. Trying to tear down or intentionally obfuscate

⁷ Small Business Majority, State Surveys Highlight Small Business Support for Healthcare Reform, August 2009, <http://www.smallbusinessmajority.org/small-business-research/opinion-research.php>.

⁸ Kaiser Family Foundation/HRET, Employer Health Benefits Annual Survey, 2008, <http://ehbs.kff.org/2008.html>.

⁹ Employee Benefit Research Institute, Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2008 Current Population, http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3975.

¹⁰ Center for American Progress, What Will Happen to Small Business if Health Care Is Repealed, July 23, 2010, http://www.americanprogress.org/issues/2010/07/small_biz_reform.html.

¹¹ U.S. Bureau of Census, 2006 County Business Patterns

important provisions of this legislation would send small businesses back into in a broken system that threatens their competitiveness, discourages entrepreneurship and jeopardizes our economic recovery.

Conclusion

Healthcare reform is not an ideological issue; it's an economic one. Small business owners know this, which is why they overwhelmingly support reforming our broken system and containing the skyrocketing cost of insurance.

Without reforms like the tax credits in the ACA, small businesses will once again be mired in a system that drains their coffers and stunts their growth—disabling them from playing their vitally important role as the nation's jobs creators. But it's imperative they are educated about the provisions that will help lower their costs so they can in turn grow the economy. We hope Congress will spend its time focusing on ways to make implementation of the Affordable Care Act as smooth as possible, and on ways of strengthening its provisions. Our small businesses and our economic recovery depend on it.