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Small businesses struggling with health care reform

Wading through the murky waters of health care reform can be overwhelming. While some of the provisions of The Patient Protection and Affordable Care Act, more commonly known as health care reform, were implemented in September 2010, many of the requirements will not be fully in place until 2014.

In the meantime premiums continue to rise, leaving small business owners especially vulnerable. According to the U.S. Department of Health and Human Services, small business owners pay an average of 18 percent more than larger firms for the same policies.

And those in the industry do not see any relief in sight.

Jodie Corless and Stefanie Nostdahl co-own Pend Oreille Insurance in Sandpoint. They agree that the mandate requiring insurance companies to fully cover preventative care, the requirement that companies cover pre-existing conditions and the removal of lifetime maximum benefits are all contributing factors to the rise in premiums.

“The premium will be so much more because of what they will be required to cover,” Corless said.

One owner of a successful Sandpoint restaurant that employs seven full-time staff said she has never been able to offer her employees health insurance benefits. Even with the new incentives offered to small businesses by health care reform, she said it is still cost prohibitive.

If fully enacted, the law will require most U.S. citizens to provide proof of health insurance coverage beginning in 2014. Failure to do so will result in a tax penalty – a penalty that Corless and Nostdahl say will probably be less than the premium. Thus many people will have no incentive to buy insurance.

Twenty-six states, including Idaho, have filed a joint petition with the United States Supreme Court challenging the constitutionality of the act. One of the issues to be addressed is whether the individual mandate is an improper exercise of the federal government’s authority. With oral arguments scheduled to take place by early March, it is anticipated a decision will be reached by the Supreme Court by early summer.

The act provides varying requirements for a business owner depending upon whether it is a small business, defined as a company with fewer than 25 employees or annual revenue less than \$250,000, or a larger business.

For owners of large businesses, the act institutes a play-or-pay requirement, which means owners must cover at least 72.5 percent of the cost for the premium for full-time employees, and up to 65 percent of the premium costs for eligible dependents. Failure to do so will result in the employer’s paying a fee ranging from 2 percent to 8 percent of the company’s payroll, depending on its size.

Small business owners, while not required to cover their employees' health insurance premiums, are encouraged to do so by way of certain provisions in the act. One of those provisions, which goes into effect in phases, is a small business health care tax credit.

According to the Internal Revenue Service, small business owners who employ fewer than 25 employees pay an average of less than \$50,000 in wages and cover at least 50 percent of their employees' health insurance premiums can claim a tax credit of up to 35 percent for the years 2010 through 2013.

The purpose of this credit is to help defray the cost of providing the benefit to the employees. The plan is to increase the maximum credits in 2014 to 50 percent and 35 percent for small charitable organizations.

The amount of credit permitted depends upon the number of employees and the salaries paid; it is not a dollar-for-dollar credit.

To further reduce the burden on small businesses, the IRS says an eligible small business owner can claim as a business-expense deduction the portion of the premium that exceeds the amount saved by the tax credit.

Additionally, a small business owner who may not have owed taxes during a given year may apply the credit either back a year or forward to other tax years.

To calculate the credit, small business owners must use Form 8941.

Kendon Perry of Farm Bureau Financial Services says the tax credit has not been an incentive for his business clients to offer insurance benefits to their employees.

Instead, many of his clients are exploring creative options, including higher deductibles and even exploring whether individual policies that meet the needs of each individual employee, with the employer covering the expense, would be more cost effective than a group policy. He does not foresee the tax credit changing this.

"Small businesses will probably walk away from providing insurance," Perry said.

If insurance is not available through the employer, the act provides people and small businesses an opportunity to shop for coverage in what is referred to as an Affordable Insurance Exchange.

But Perry does not see the exchange as a practical option for small businesses or individuals.

"It will become a nightmare, especially when it comes to claims," he said, referring to the fact that health insurance agents may become a thing of the past once the exchange is established. "People like to have someone with whom they can meet face-to-face and who can answer their questions."

Perry also worries that the requirement of businesses with an excess of 25 employees to provide health insurance will serve only to stifle growth for smaller companies.

"Companies of this size are the backbone of our economy," Perry said.

Perry's advice to small businesses is to consult with both their insurance agent and CPA. "If they are inclined to want to provide employees with health insurance benefits, they need to explore the cost," he said. "I want to see small businesses continue to grow, but these businesses need to do their homework as this program unravels."