

July 9, 2010

Follow Us

[TWITTER](#)

[FACEBOOK](#)

Media Information

If you are a member of the media and would like more information on anything in this e-newsletter, please email Berk Brown at: Berk.Brown@PlatteInstitute.org or call (402) 452.3737. Members of the media may use any or all parts of this information in reproduction as long as proper credit is given to the author and to the Platte Institute for Economic Research.

Send a Letter to the Editor

The Platte Institute strongly believes in the importance of citizens participating in the public dialogue on issues important to Nebraska. Writing a letter to the editor is an outstanding way to partake in the discussion and have

PLATTE CHAT

Federal Health Care's Impact on Business

John Ligon
The Heritage Foundation

While President Obama continues to herald the passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, businesses across the U.S. are growing more and more discontent - and for good reason.

The new health care law will impose new compliance regulations, employer mandate taxes, taxes on business "flow-through" and investment income, and numerous indirect costs on small- and medium-size companies. Altogether, these constraints will dramatically affect companies' per-employee costs, firm-level allocation of labor; desire to take on health coverage, and motivation to grow both in terms of income and employment.

Congress should repeal this massive statute, start over, and get health care reform right.

Medium-Size Business Under Fire

Federal Health Care will dramatically impact the behavior of medium-size firms in the U.S.-specifically, those companies with 50-199 workers.[1] Beginning in 2014, Federal Health Care will begin imposing taxes-to help offset the cost of

your voice heard by thousands of people. To make the process easier, the Platte Institute has assembled a list of links which allow you to submit a letter to the editor to nearly all Nebraska newspapers. Simply [CLICK HERE](#) for a listing of the newspapers and follow the appropriate link to submit your letter.

Contact Us

If you would like to contact someone at the Platte Institute, you are always welcome to give us a call, drop us an email or stop by the office. Our telephone number is 402.452.3737. We are located at 10050 Regency Circle – Suite 120 – in Omaha. Below is a list of staff email address:

John S. McCollister
Executive Director
john.mccollister@platteinstitute.org

Anne Duda
Senior Policy Analyst
anne.duda@platteinstitute.org

Kimberly Stephenson
Development Director
kims@platteinstitute.org

Berk Brown
Director of Communications
berk.brown@platteinstitute.org

individual employees receiving premium subsidies through the to-be-established state health insurance exchanges-on companies with 50 "full-time equivalents" that do not offer an "acceptable" level of health insurance coverage.[2] These mandates will force companies-including companies below the 50-employee threshold-to react to eventual overall cost increases.

These changes will likely produce upward pressure on health insurance premiums in the "fully insured market"-and this will disproportionately affect these medium-size companies as well as smaller companies.[3] Employees will likely bear most of the burden since these costs will likely be passed on to them in the form of reduced wages, discontinued hiring, or loss of employment. Instead of adding more regular full-time employees, some businesses will simply increase hours for current employees, hire low-skilled and low-income labor, or opt for more temporary or seasonal workers.

Health Reform Penalizing Small Business

President Obama and congressional leadership repeatedly claim that Federal Health Care is good health reform policy for small businesses (companies with 50 or fewer workers), but this claim is not supported by the facts.[4] Instead, Federal Health Care will likely exacerbate many of the concerns of small businesses-particularly small business owners-in at least four ways.

1. Higher Health Care Costs. Federal Health Care does nothing to "bend down the cost curve" that small businesses face relating to providing health insurance coverage. In fact, it is likely that the endless regulations, mandates, fees, and taxes will put upward pressure on premium prices-particularly in the "fully insured" market, where 88 percent of workers and dependents at small businesses purchase health insurance.[5] Heritage analysis estimates that roughly 54.5 percent of the total "premium tax" on health insurers will be paid by workers and dependents covered by these employer group policies.[6]

Additionally, the increased costs of health insurance will cause many firms with 50 or fewer employees-perhaps most-to either not offer coverage or drop coverage if they currently offer it. There is nothing currently in Federal Health Care that will stop them from doing so.

2. Ineffective Small Business Tax Credit. Even accounting

for the "cost-reducing" tax credits-which the Congressional Budget Office estimates will impact at most 12 percent of businesses with 25 or fewer workers and expire after two years beginning in 2014-Federal Health Care will not address the many uncertainties small businesses face in deciding whether to offer health insurance coverage to its workers.

Essentially, after all exclusions the only eligible firms for the heralded "small business tax credit" are those with 10 or fewer workers and those with low-income workers-and most of these workers will qualify for premium subsidies in the state exchanges. These small firms are the least likely to offer coverage even with a significant price reduction.

3. Higher Regulation Compliance Costs. Small businesses do not have the capacity to easily take on additional administrative complexities. Many small companies will have to hire additional workers-and incur higher external accounting expenses-to handle not only the enhanced compliance regulations on health insurance plans but also stricter tax compliance regulations relating to business-to-business transactions.[7]

4. Medicare Taxes on "Flow-Through" and Investment Income. Federal Health Care will increase the Medicare payroll tax and establish a new Medicare non-payroll ("investment") tax. This tax will apply perversely on "flow-through income"-thus reaching a significant share of small businesses. [8] Moreover, the wage thresholds on this tax increase are not indexed to inflation and, consequently, will push more small business owners into this higher tax group. [9] The Medicare "investment" tax will also lead to greater deterrence on investment-and passive income-which will suppress economic growth.

Penalizing Business Growth and Success

Businesses will not take much comfort from the passage of this "historic" health care bill. The President and many lawmakers in Washington are consistently proposing and passing legislation that hurts these businesses, and Federal Health Care is one more example.

Federal Health Care fails to appropriately address the concerns of small- and medium-size businesses relating to health care reform, and it will force many companies to react

to new cost burdens. The intended consequences of this poorly constructed bill are harmful enough, but the many unintended consequences are even worse.

John L. Ligon is Policy Analyst in the Center for Data Analysis at The Heritage Foundation.

[1]While companies with 50-199 workers represent only 8 percent of total firms in the U.S., workers across these companies comprise an estimated 22 percent of total employment in the U.S. See United States Small Business Administration, "Statistics of U.S. Businesses and Nonemployer Statistics: Firm Size Data," at <http://www.sba.gov/advo/research/data.html> (April 16, 2010).

[2]The Congressional Budget Office estimates that revenue collected from the imposition of these employer mandates will offset the federal budget by \$104 billion over 2010-2019. See Congressional Budget Office, "H.R. 4872, Reconciliation Act of 2010," March 18, 2010, at <http://www.cbo.gov/ftpdocs/113xx/doc11355/hr4872.pdf> (April 22, 2010).

[3]John L. Ligon, "The Baucus Plan: Implications for Small- and Medium-Sized Firms," Heritage Foundation WebMemo No. 2656, October 20, 2009, at <http://www.heritage.org/Research/Reports/2009/10/The-Baucus-Plan-Implications-for-Small-and-Medium-Sized-Firms>.

[4] Edmund F. Haislmaier, "State Health Care Reform: An Update on Utah's Reform," Heritage Foundation Backgrounder No. 2399, April 9, 2010, at <http://www.heritage.org/Research/Reports/2010/04/State-Health-Care-Reform-An-Update-on-Utahs-Reform>.

[5]John McDonald, "Health Plan Differences: Fully-Insured vs. Self-Insured," Employee Benefit Research Institute, February 11, 2009, at <http://www.ebri.org/pdf/FFE114.11Feb09.Final.pdf> (April 20, 2010). See also Senator Sam Brownback and Representative Kevin Brady, "Unwinding Federal Health Care: New Tax Could Boost Small Business Premiums an Extra \$1,000 a Year," Joint Economic Committee, April 22, 2010, at http://jec.senate.gov/republicans/public/_files/UnwindingFederalHealthCareNewTaxCouldBoostSmallBusinessPremiumsanExtra1000aYear_042210.pdf (April 23, 2010).

[6]Edmund F. Haislmaier, "The Senate Health Bill: Cost of

the Insurance Premium Tax to Individuals and Families," Heritage Backgrounder No. 2035, December 9, 2009, at <http://www.heritage.org/Research/Reports/2009/12/The-Senate-Health-Bill-Cost-of-the-Insurance-Premium-Tax-to-Individuals-and-Families>. [7]Beginning in 2012, all businesses will have to send Corporate 1099-MISC forms for every business-to-business transaction of \$600 or greater. This tax reporting change will disproportionately burden small businesses compared to large businesses, since small businesses rely more on costly external accounting services for such compliance issues. [8]These tax increases-applying to business "flow-through" income-will affect individual tax filers earning \$200,000 or more per year and families earning \$250,000 or more per year. [9]Scott Hodge. "Putting a Face on Americas Tax Returns," Tax Foundation, November 1, 2005, at <http://www.taxfoundation.org/files/dba37618d9c2d2df02f24766ac4cc39d.pdf> (April 16, 2010).

www.platteinstitute.org

If you do not wish to receive this newsletter or if you wish to be removed from all future newsletters, please [click here](#) to manage your subscriptions.