

# Impacts of Health Care Reform on Small Businesses

(June 2010)

- 1. What is the small business tax credit and how do I know if I am eligible?** Effective January 1, 2010 tax credits are available in 2010 to qualifying small business that contribute to their employees' health insurance costs as follows: Employers with no more than 25 full-time equivalent employees for the tax year, and average wages of its employees for the year are less than \$50,000 per full-time equivalent, and the employer pays at least 50% of the premiums for each employee, may receive a maximum tax credit up to 35% of the premiums paid by the employer. Eligible tax exempt organizations may claim a tax credit up to 25% of premiums paid by the organization.
- 2. Am I required to offer health insurance?** No. Small businesses with less than 50 employee full-time equivalents (FTEs) are not required to offer health insurance under the new legislation.
- 3. How do I calculate how many FTE employees I Have?** To calculate the number of FTE employees you have, add the number of full-time employees (i.e. those working 40 or more hours per week) with the full-time equivalent part-time employees. The number of full-time equivalent part-time employees is determined by totaling the hours worked by part-time employees and dividing it by 2,080.
- 4. Will I be penalized for not offering insurance to my employees?** No. There are no tax penalties for companies with less than 50 employee FTEs that do not offer insurance.
- 5. What if my business grows to more than 50 full-time equivalent employees?** Small business owners with more than 50 employee FTEs that do not provide qualified health insurance and have at least one full-time employee who receives a premium tax credit, will be assessed a fee of \$2,000 per full-time employee, excluding the first 30 employees, from the assessment. For example, an employer with 50 employee FTEs will pay a penalty of \$40,000 (20 times \$2,000) for not offering coverage. The penalties are not tax-deductible.
- 6. If I do not offer health insurance, will my employees be required to buy it and will there be any government help?** Yes. Beginning January 1, 2014, all individuals must purchase "qualified" health insurance. If they do not, they may be subject to tax penalties of up to \$695 per year. Government subsidies will be available to individuals with incomes up to 400% of the poverty line (\$88,200 for a family of four) to help pay for individual health insurance.
- 7. What is the insurance exchange and how will I be able to use it?** By 2014, each state must create an American Health Benefits Exchange and a Small Business Health Options Program Exchange. These exchanges will provide a place where individuals and small businesses can purchase coverage that meets the federal requirements. Small business owners are not required to purchase coverage through the exchanges.
- 8. Will I be required to change my health plan in 2014?** No. The new health care reform bill specifically allows a small business owner to keep their company's current health insurance as a "grandfathered" plan. "Grandfathered" plans will not be subject to new health insurance mandates until the plan is altered.
- 9. Are there new reporting requirements for health benefits for my business?** Yes. Beginning in the 2011 tax year, you will be required to report the "aggregate cost" of your employer-sponsored coverage on an employee's W-2. These reported amounts will not be taxed.
- 10. How will health care reform affect my health insurance if I am self employed?** Beginning in 2014, self-employed individuals will have access to the small group market and guaranteed-issue individual health insurance policies. Self-employed individuals will still be able to take tax deductions for premiums on their individual 1040.