

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

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Testimony of

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before the

Subcommittee on Economic Growth, Tax and Capital Access

on the subject of

**Lip Service but Little Else: Failure of the Small Business
Health Insurance Tax Credit**

on the date of

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Good morning Chairman Huelskamp, Ranking Member Chu and members of the Subcommittee on Economic Growth, Tax and Capital Access. Thank you for the opportunity to testify today. I am pleased to be here on behalf of the National Federation of Independent Business (NFIB) as the Committee discusses the small business health insurance tax credit.

Small business owners rank the cost of health insurance as their most severe problem in operating their business out of 75 potential issues, with 56 percent of small business owners finding it a “critical” problem.¹ The high cost of health insurance is the main reason owners do not offer employer-sponsored health insurance and the main reason owners discontinue providing the benefit. And for those offering, many owners annually confront the arduous task of adjusting profit expectations, insurance plans, cost-sharing and other mechanisms to help absorb often erratic changes in total premium costs.

The rising cost of health insurance has forced many small employers to rethink the viability of offering health insurance to their employees, especially during and in the wake of the great recession. Since 2008, the offer rate for small businesses with fewer than 50 employees has dropped precipitously. Small business owners are far more hesitant to committing themselves to offering a long term, high cost benefit. The offer rates for this group have fallen over 10 percentage points from 43 percent offering in 2008 to 32 percent in 2014.²

The small business health insurance tax credit was a targeted approach to help curb health insurance costs for offering small employers and was intended to provide an incentive for those that do not, to start offering. However, the tax credit was largely ineffective on both fronts as its design is exceedingly restrictive, complicated, and only offers limited and temporary relief to a larger small business cost problem. To date, the tax credit has generally served as a windfall for the few small business owners who qualify and take the time, or pay an accountant, to file for it.

In 2010, the Congressional Budget Office (CBO) estimated the tax credit would provide \$40 billion in cost relief for small business owners over 10 years. More recently, CBO has lowered the cost estimate to \$10 billion over 10 years due to lower than expected utilization. NFIB initially estimated the eligible population of small business owners to be about 1.4 million. The Administration’s estimate, which included non-offering firms, was 4 million.³ IRS data reported that in 2010 just over 170,000 small businesses claimed the tax credit at a cost of \$468 million, despite considerable outreach efforts by the IRS and other groups to raise awareness of the credit.⁴

The ineffectiveness of the tax credit is largely due to four factors. The first, and most limiting, factor in claiming the tax credit is that eligibility was targeted to and most beneficial for those small businesses least likely to offer health insurance. Health insurance offer rates vary

¹ Wade, Holly, *Small Business Problems and Priorities*, NFIB Research Foundation, August 2012.

² Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2008-2014 Medical Expenditure Panel Survey-Insurance Component.

³ Fact Sheet: Small Business Health Care Tax Credit, April 1, 2010.

<https://www.whitehouse.gov/the-press-office/fact-sheet-small-business-health-care-tax-credit>

⁴ The IRS mailed 4.4 million postcards to small business owners informing them of the tax credit.

significantly by employee size of firm and average wages.⁵ Those businesses with lower than average wages are more likely to compensate employees in cash and not benefits. Health insurance costs would significantly crowd out employees' take home pay. Smaller, small businesses are also less likely to offer health insurance and those factors vary from high administrative burdens, low take-up rates, and higher than average premiums.

Second, the tax credit is exceedingly complicated to verify eligibility and claim the credit. The IRS estimates that recordkeeping requirements to claim the credit average just under 11 hours for most filers. The education component is estimated to take about 1½ hours. And finally the time spent preparing and filing is estimated to take an average of 2 hours and 46 minutes. While most small employers use a tax preparer for their business, the costs associated with claiming the tax credit will deter many from going through the process in the first place.

Since 2010, NFIB has received numerous complaints from small business owners regarding the complexity of the tax credit. Some owners called to say that even their tax preparer told them the credit was not worth the extra costs associated with determining eligibility and filling out the paperwork.

Third, the tax credit is temporary. At most, the credit was available to small business owners for six years if they started claiming the credit in 2010. Currently, small business owners can claim the credit for two years. Health insurance is a long term benefit offered by employers to retain and recruit employees. Owners generally start offering the benefit when profits allow for the added costs. Profitability was an important factor in offering health insurance for 63 percent of newly offering firms.⁶ The tax credit is a little relief in the long term cost challenges small business owners face in offering health insurance.

And fourth, as of July 1, 2014, the small business tax credit is only available to qualifying businesses through the Small Business Health Options Program (SHOP) marketplaces. Most small employers purchase health insurance through an insurance agent and therefore rely on the agent for suggesting insurance options available to them. Only 13 percent of offering small businesses visited their SHOP exchange. And of those offering and shopped, less than 1 percent purchased through the SHOP marketplace. Among non-offering firms, 17 percent of small employers shopped for coverage through a SHOP exchange. The vast majority of non-offering firms did not select a plan through SHOP because the plans were too expensive.

The small business health insurance tax credit was too narrowly designed to be an effective cost savings tool for small employers. The tax credit has now been available to qualifying small employers for 5 years and still, very few businesses have benefited. But more importantly, health insurance costs continue to increase, and small business owners continue to struggle with their ability to afford offering the benefit.

⁵ Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2008-2014 Medical Expenditure Panel Survey-Insurance Component.

⁶ Dennis, WJ, Jr. (2014). Small Business's Introduction to the Affordable Car Act, Part II. NFIB Research Foundation: Washington, DC. <http://www.nfib.com/assets/nfib-aca-study-2014.pdf>.

I appreciate the opportunity to present NFIB's views and data on the effects of the small businesses health insurance tax credit. I look forward to answering any questions you might have.