HEALTH INSURANCE REFORM: BENEFITS FOR SMALL BUSINESS

A Legislative Update on the Patient Protection and Affordable Care Act for New York's Small Businesses

Presented by:
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August 1, 2010

OUTLINE

- Why Health Insurance Reform?
- Key Benefits For Small Business
- Understanding the Law’s Requirements
- Question & Answer

WHY NY's SMALL BUSINESS NEEDED HEALTH INSURANCE REFORM

- "My family owned a small business has operated for 41 years. For thirty of those years we have provided medical coverage without a required contribution for our 32-40 employees. Over just the last twenty years we have seen the cost of a single benefit plan balloon from $200 per month to over $600. The cost for medical coverage is over 12% of the cost of our payroll. I believe this bill is going to make a real difference for my company. Regardless of the economy…it is impossible to grow and thrive without a healthy workforce. We understand the power of the competitive market so we look forward to the ability to look statewide for the best and most cost effective plans through insurance exchanges. [This bill] will make it easier to consider hiring new employees."

  Kim Sears, small business owner

- "Giving small businesses a chance to band together in bigger buying groups will give owners more market power than they have now, and lower costs for health insurance. My experience managing energy buying groups tells me this that will work for health coverage too. I also like the tax credits, the fact that the smallest businesses are not mandated to provide coverage, and the long term deficit reduction. Altogether, the package is good news for the economy as a whole and therefore good news for small firms like mine."

  Gordon Boyd, President of EnergyNext

SMALL BUSINESS IMPACTS: Key Benefits For Small Business

- ✓ Small Business Tax Credit
- ✓ Small Business Health Insurance Exchanges
- ✓ New Rules to Ensure that Small Businesses and Their Employees Receive A Fair Deal on Health Insurance Rates and Policies

SMALL BUSINESS IMPACTS: Small Business Tax Credit

- ✓ **<u>What and When</u>:**

  A tax credit of up to 35% of premiums a small business pays for its workers in 2010-2013, and 50% starting in 2014 (for two years).

- ✓ **<u>Who Qualifies</u>:**

  Small employers that provide healthcare coverage are eligible if:

  - ✓ They have fewer than <u>25</u> full-time equivalent employees (FTEs) for the tax year
  - ✓ The average annual wages paid are less than <u>$50,000</u> per FTE
  - ✓ The employer pays at least <u>50%</u> of the premium cost.

SMALL BUSINESS IMPACTS:
Other Small Business Tax Credits

- **<u>Prevention Credit</u>:**

  Provide grants for up to five years to small employers that establish wellness programs.

  Employers can receive up to 30% of the cost of coverage in the form of premium discounts, waivers and cost sharing requirements for their participation in a wellness program.

  <u>Definition of a wellness program</u>

  A program intended to improve and promote health and fitness that's usually offered through the work place, although insurance plans can offer them directly to their enrollees. The program allows an employer or plan to offer you premium discounts, cash rewards, gym memberships, and other incentives to participate. Some examples of wellness programs include programs to help you stop smoking, diabetes management programs, weight loss programs, and preventative health screenings.

- **<u>For the Self Employed</u>:**

  Sliding scale premium affordability credits and caps on out-of-pocket costs will provide additional assistance and security for self-employed people and their families. These credits can be used starting in 2014 to purchase individual or family health insurance coverage from private insurers on the health care exchange.

SMALL BUSINESS IMPACTS: Small Business Health Exchanges

- **What and When:**

  Starting in 2014, small businesses will have access to new, simplified marketplaces for health coverage called insurance exchanges at the state level that increase pooling and administrative efficiencies.

  A variety of private plans with different benefit levels will be available in each exchange.

- **Who Qualifies:**

  Small businesses with 100 employees or less, including self-employed people will qualify in the first year, 2014.

  States will have the option to open their exchanges to businesses with more than 100 employees starting in 2017.

- **Impact:**

  The exchanges will maximize small business bargaining power to negotiate better coverage, promote transparency and informed choice, increase competition to lower rates, and cut administrative costs.

SMALL BUSINESS IMPACTS: Small Group Market Improvements

- ✓ Ends premium discrimination in the small group insured market based on gender and health status, and limits rating by age.
- ✓ Eliminates lifetime and annual limits by insurers and provides a maximum out-of-pocket limit to protect small business owners and employees from bankruptcy.
- ✓ Strengthens oversight of insurer rate increases, protecting small businesses from arbitrary and unreasonable premium hikes.
- ✓ Prohibits insurance companies from denying coverage for pre-existing conditions.

UNDERSTANDING THE LAW'S REQUIREMENTS

- **Exemption:**

  Businesses with fewer than 50 full-time employees (measured in FTEs) are exempt from any requirements to contribute toward health coverage (part-time employees are pro-rated at 120 hrs/month = 1 FTE; there is an exclusion for seasonal employment).

- **Impact:**

  An estimated 96 percent of all firms in the country have fewer than 50 employees and will be exempt.

UNDERSTANDING THE LAWS REQUIREMENTS

- ✓ **Requirements:** Starting in 2014, for businesses with 50 or more full-time employees (measured in FTEs):

  - ✓ If the business does not offer coverage to full-time employees, and any full-time employee receives a subsidy through an exchange, the employer will pay $2,000 per full-time worker (not including the first 30 workers).

  - ✓ If the business offers coverage but the cost of that coverage to the employee is unaffordable (exceeds 9.5 percent of household income) for any full-time employees, or the plan covers less than 60 percent of average health costs, then the employee can choose to go to the exchange and the employer will pay $3,000 for each full-time employee who receives a subsidy in an exchange (CAPPED AT $2,000 PER FULL-TIME WORKER OVER 30 WORKERS).

1099 Reporting Requirement

- **<u>What is It?</u>:**

  New regulations, which kicks in at the start of <u>2012</u>, requiring any taxpayer with business income to issue 1099 forms to <u>all</u> vendors from whom they purchased more than <u>$600 </u>of goods and services that year.

- **<u>The Problem</u>:**

  The provision could be overly burdensome on small business.

- **<u>Potential Solution</u>:**

  Scott Murphy recently helped introduce H.R. 5982, *The Small Business Tax Relief Act,* which would eliminate the 1099 reporting requirements

Information on HR 5982
The Small Business Tax Relief Act

- On July 30, 2010, Scott Murphy helped introduce H.R. 5982, *The Small Business Tax Relief Act.* The legislation would have eliminated the 1099 reporting requirements established in the recently-passed health care legislation, relieving small businesses from a significant administrative burden. The legislation was paid for by closing several tax loopholes for multinational companies that use their overseas operations to avoid paying US taxes.

- On July 30, 2010, the bill received 241 bi-partisan votes, but failed to secure the 2/3 majority needed to pass the House. House Republicans objected to provisions closing tax loopholes for multi-national corporations.

Additional Background on HR 5982

- **Eliminating Burdensome Reporting**

  Starting in 2012, businesses will be required to file information returns with respect to any person (including corporations) that receives $600 or more from the business in exchange for property and merchandise. Furthermore, businesses will be required to file information returns with respect to corporations that receive $600 or more in exchange for services or other determinable gains.

  As written, the current law requires small businesses to collect Taxpayer Identification Numbers (TIN) as well as company information for each purchase they make. While this may be possible for large companies with sophisticated accounting systems, this will add a significant administrative cost burden to small businesses that do not currently have the capacity to track every purchase. This provision threatens to place a significant undue burden on law abiding small business, hindering economic growth with very little evidence that it would achieve the result the government intends.

  The Murphy bill would eliminate the 1099 reporting requirements, returning the reporting requirements back to last year's policy. That policy would require businesses to file a 1099 reporting any service transaction over $600.

  Closing Tax Loopholes for Companies Taking Jobs Overseas

  H.R. 5982, *The Small Business Tax Relief Act* would end the current foreign tax "split" practice. Currently foreign tax taxpayers are permitted to claim foreign tax credits with respect to foreign taxes paid on income earned offshore. Taxpayers have devised several techniques for splitting foreign taxes from the foreign income on which those taxes were paid. With these techniques, the foreign income remains offshore and untaxed by the United States, while the foreign taxes are currently available in the U.S. to offset U.S. tax that is due on other foreign source income.

  The bill would also limit the use of the hopscotch rule for foreign tax credit planning. U.S.-based multinational companies typically have complex foreign structures designed to mitigate their worldwide tax expense. In many cases, these structures include companies located in tax havens such as Bermuda and the Cayman Islands, in a multi- tier chain of subsidiaries. If a foreign subsidiary with a relative high tax expense distributes a dividend up through a chain of companies, the foreign tax credit on the dividend ultimately received by the U.S. shareholder is a blend of the tax rates of each foreign subsidiary in that chain. If there is a tax-haven company in that chain, the U.S. tax due on the dividend may be significantly higher than the tax would have been if the foreign subsidiary's dividend could have simply "hopscotched" over the chain as a direct distribution to the U.S. shareholder.