

Health Care reform:

WHAT IT MEANS FOR SMALL BUSINESS



FROM THE NORTH CAROLINA JUSTICE CENTER

Health reform will provide some immediate benefits to small businesses in North Carolina such as substantial tax credits to help offset the cost of providing insurance. Many other important protections will phase in over the next four years.

Beginning this year small businesses with fewer than 25 full-time employees are eligible for tax credits of up to 35 percent of the employer's insurance premium contributions. To be eligible the employer must contribute at least 50 percent of the total premium for employee health coverage and have average wages of less than \$50,000 per year.

As an example, let's take an employer with 9 full-time equivalent employees that pays average annual wages of \$23,000. If the employer pays \$72,000 in health care premiums then the business would qualify for a 2010 tax credit of \$25,200. In 2014 the tax credit will increase to 50 percent of the employer's insurance premium contributions. In our example that's \$36,000 in credits.

The tax credit offsets an employer's actual income tax liability or alternative minimum tax liability for the year, which means that businesses with no taxable income generally can't claim the credit. Businesses can carry the credit forward for 20 years to help cover future tax liabilities. Businesses will claim the credit on their annual income tax return.

Nonprofits are also eligible for tax credits, although the credit covers 25 percent of the employer's premium expenses instead of the 35 percent available to small businesses. For tax-exempt organizations the credit is refundable and available even though the organization does not have taxable income. The credit available to nonprofits also can't exceed the amount of income and Medicare taxes the employer withholds from wages each year.

By 2014 North Carolina must set up a health insurance exchange that is available to individuals and small businesses with 100 or fewer employees.

What is a health insurance exchange?

- **An exchange is an insurance clearinghouse established by the state.** An exchange allows individuals and small businesses to band together and purchase insurance as a single pool. This will make insurance premiums more affordable – especially for businesses with older employees.
- The exchange will also impose important **protections for individuals and small businesses.** Reform will prohibit varying premiums by medical history or gender. It will also limit how much premiums can vary according to age.
- North Carolina must establish an exchange by 2014, but federal grants are available if the state wants to create a clearinghouse earlier. The state is allowed to operate a single exchange or two exchanges – one for small business and one for individuals. **Creating a single exchange would provide a larger purchasing pool and lead to better rates for consumers.** After 2017, North Carolina can elect to allow employers with more than 100 employees to purchase coverage through the state's insurance exchange.

Beginning in 2014 businesses with more than 50 employees will be required to offer health insurance. Employers with more than 50 full-time workers that do not offer insurance will pay a fine of \$2,000 for each full-time employee. The first 30 employees are exempt from the penalty.

Companies that offer insurance are expected to subsidize a portion of the premium cost for employees.

If an employee is required to pay more than 8 percent of his or her income for a company health insurance policy, then the employee can decline the company's insurance plan and instead buy coverage through the state exchange. The employee is allowed to take the company's insurance premium subsidy in the form of a voucher to help buy coverage in the exchange. If a company insurance plan costs more than 9.5 percent of an employee's income then the employee can purchase insurance through the state exchange and receive federal subsidies. The company must then contribute \$3,000 to help fund the federal subsidy provided to the employee.