

Small Business Tax Credit for Health Insurance

Written by Sen. Charles Grassley
Monday, 24 May 2010 13:03

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Sen. Chuck Grassley, ranking member of the Committee on Finance, with jurisdiction over tax policy, today made the following comment on an Associated Press “fact check” report that the Administration’s tax credit purported to help small businesses afford health insurance for their employees won’t help some of those small businesses, despite portrayal of the tax credit as broadly available.

“Small business owners have been told to expect help right away, and now some of them are starting to do the math and finding out the help isn’t for them. The authors of the health care reform bill should be clear with people that the tax credit is limited and that only a pretty narrow category of small business owners will see any benefit. Also, this tax credit, for those it will help, is available for only two more years after the health exchanges are up and running in 2014. The Congressional Budget Office estimates that in 2016, only three million small business employees out of 159 million Americans with employer-sponsored private coverage would actually benefit from the small business tax credit for health insurance. That’s less than two percent of those with employer coverage benefiting.”

The text of the Associated Press “fact check” story follows here.

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FACT CHECK: Tax cut math doesn't add up for some

May 20, 2010 - 03:08 AM US/Eastern
By RICARDO ALONSO-ZALDIVAR
Associated Press Writer

[WASHINGTON](#) (AP) - [Zach Hoffman](#) was confident his small business would qualify for a new [tax cut](#) in President Barack Obama's health care overhaul law.

But when he ran the numbers, Hoffman discovered that his office furniture company wouldn't get any assistance with the \$79,200 it pays annually in premiums for its 24 employees. "It leaves you with this feeling of a bait-and-switch," he said.

When the administration unveiled the small business tax credit earlier this week, officials touted its "broad eligibility" for companies with fewer than 25 workers and average annual wages under \$50,000 that provide [health coverage](#). Hoffman's workers earn an average of \$35,000 a year, which makes it all the more difficult to understand why his company didn't qualify.

Lost in the fine print: The credit drops off sharply once a company gets above 10 workers and \$25,000 average annual wages.

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It's an example of how the early provisions of the health care law can create winners and losers among groups lawmakers intended to help—people with health problems, families with young [adult children](#) and small businesses. Because of the law's complexity, not everyone in a broadly similar situation will benefit.

Consider small businesses: "The idea here is to target the credits to a relatively low number of firms, those who are low-wage and really quite small," said economist [Linda Blumberg](#) of the Urban Institute public policy center.

On paper, the credit seems to be available to companies with fewer than 25 workers and average wages of \$50,000. But in practice, a complicated formula that combines the two numbers works against companies that have more than 10 workers and \$25,000 in average wages, Blumberg said.

"You can get zero even if you are not hitting the max on both pieces," Blumberg said.

Hoffman used an online calculator to figure his company's eligibility. At least three are available: from the [House Energy and Commerce Committee](#), which helped write the legislation; from the progressive [Center for American](#)

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[Progress;](#) and from the [National Federation of Independent Business,](#) which is seeking to overturn the law in federal court. All produced the same result.

"I think (the administration's) intentions are good, but the numbers and applications don't come out to what they intend," said Hoffman, part owner of Wiley Office Furniture, a third-generation family business in Springfield, Ill.

The [Treasury Department,](#) which administers the new credit, did not dispute the calculations.

"The small-business tax credit was designed to provide the greatest benefit to employers that currently have the hardest time providing [health insurance](#) for their workers—small, low-wage firms," said [Michael Mundaca,](#) assistant secretary for [tax policy.](#)

"Small employers face higher premiums and higher administrative costs than large firms and in many cases cannot afford to provide coverage."

Small [business owners](#) are a pivotal constituency in the fall congressional elections, and Democrats are battling to win them over. Major benefits of the health care law—competitive insurance markets, more stable premiums and a ban on denying coverage to those in poor health—don't take effect until 2014. But the health care credit is available starting this year.

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It can be a boon for smaller companies paying lower wages. [Betsy Burton](#), owner of The King's English Bookshop in [Salt Lake City](#), estimates that she will get a credit of roughly \$21,000 against premiums of about \$67,800. She has 11 full-time equivalent employees averaging \$26,100.

"What it means is that I can afford to carry this insurance and insure people's families," said Burton. "I was afraid that we were fast approaching a time when I would have to choose between insuring my employees and closing my doors."

Burton believes offering health insurance is the right thing for an employer to do—and also makes good business sense because it helps her retain valued employees. Except at the beginning, she has provided coverage for most of the 33 years the bookstore has been in business.

Slightly more than a third of companies with fewer than 10 employees offered coverage in 2008, down about 10 percent since the start of the decade, according to an Urban Institute analysis.

Hoffman, the furniture store owner whose business missed out on the credit, says he understands that lawmakers writing the health care legislation had a limited amount of money to work with. But his company's premiums rose 15 percent this year, and it's a struggle to keep paying.

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To get the most out of the new federal credit, Hoffman said he'd have to cut his work force to 10 employees and slash their wages.

"That seems like a strange outcome, given we've got 10 percent unemployment," he said.