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Obamacare: Impact on Businesses

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While President Obama continues traveling the U.S. heralding the passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, businesses across the U.S. are growing more and more discontent—and for good reason.

The new health care law will impose new compliance regulations, employer mandate taxes, taxes on business “flow-through” and investment income, and numerous indirect costs on small- and medium-size companies. Altogether, these constraints will dramatically affect companies’ per-employee costs, firm-level allocation of labor, desire to take on health coverage, and motivation to grow both in terms of income and employment.

Congress should repeal this massive statute, start over, and get health care reform right.

Medium-Size Business Under Fire. Obamacare will dramatically impact the behavior of medium-size firms in the U.S.—specifically, those companies with 50–199 workers.¹ Beginning in 2014, Obamacare will begin imposing taxes—to help offset the cost of individual employees receiving premium subsidies through the to-be-established state health insurance exchanges—on companies with 50 “full-time equivalents” that do not offer an “acceptable” level of health insurance coverage.² These mandates will force companies—including companies below the 50-employee threshold—to react to eventual overall cost increases.

These changes will likely produce upward pressure on health insurance premiums in the “fully

insured market”—and this will disproportionately affect these medium-size companies as well as smaller companies.³ Employees will likely bear most of the burden since these costs will likely be passed on to them in the form of reduced wages, discontinued hiring, or loss of employment. Instead of adding more regular full-time employees, some businesses will simply increase hours for current employees, hire low-skilled and low-income labor, or opt for more temporary or seasonal workers.

Health Reform Penalizing Small Business. President Obama and congressional leadership repeatedly claim that Obamacare is good health reform policy for small businesses (companies with 50 or fewer workers), but this claim is not supported by the facts.⁴ Instead, Obamacare will likely exacerbate many of the concerns of small businesses—particularly small business owners—in at least four ways.

1. Higher Health Care Costs. Obamacare does nothing to “bend down the cost curve” that small businesses face relating to providing health insurance coverage. In fact, it is likely that the endless regulations, mandates, fees, and taxes will put upward pressure on premium prices—particularly

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in the “fully insured” market, where 88 percent of workers and dependents at small businesses purchase health insurance.⁵ Heritage analysis estimates that roughly 54.5 percent of the total “premium tax” on health insurers will be paid by workers and dependents covered by these employer group policies.⁶

Additionally, the increased costs of health insurance will cause many firms with 50 or fewer employees—perhaps most—to either not offer coverage or drop coverage if they currently offer it. There is nothing currently in Obamacare that will stop them from doing so.

2. Ineffective Small Business Tax Credit. Even accounting for the “cost-reducing” tax credits—which the Congressional Budget Office estimates will impact at most 12 percent of businesses with 25 or fewer workers and expire after two years beginning in 2014—Obamacare will not address the many uncertainties small businesses face in deciding whether to offer health insurance coverage to its workers.

Essentially, after all exclusions the only eligible firms for the heralded “small business tax credit” are those with 10 or fewer workers and those with low-income workers—and most of these workers will qualify for premium subsidies in the state exchanges. These small firms are the least likely to offer coverage even with a significant price reduction.

3. Higher Regulation Compliance Costs. Small businesses do not have the capacity to easily take on additional administrative complexities. Many small companies will have to hire additional workers—and incur higher external accounting expenses—to handle not only the enhanced compliance regulations on health insurance plans but also stricter tax compliance regulations relating to business-to-business transactions.⁷

4. Medicare Taxes on “Flow-Through” and Investment Income. Obamacare will increase the Medicare payroll tax and establish a new Medicare non-payroll (“investment”) tax. This tax will apply perversely on “flow-through income”—thus reaching a significant share of small businesses.⁸ Moreover, the wage

1. While companies with 50–199 workers represent only 8 percent of total firms in the U.S., workers across these companies comprise an estimated 22 percent of total employment in the U.S. See United States Small Business Administration, “Statistics of U.S. Businesses and Nonemployer Statistics: Firm Size Data,” at <http://www.sba.gov/advo/research/data.html> (April 16, 2010).
2. The Congressional Budget Office estimates that revenue collected from the imposition of these employer mandates will offset the federal budget by \$52 billion over 2010–2019. See Congressional Budget Office, “H.R. 4872, Reconciliation Act of 2010,” March 18, 2010, at <http://www.cbo.gov/ftpdocs/113xx/doc11355/hr4872.pdf> (April 22, 2010).
3. John L. Ligon, “The Baucus Plan: Implications for Small- and Medium-Sized Firms,” Heritage Foundation *WebMemo* No. 2656, October 20, 2009, at <http://www.heritage.org/Research/Reports/2009/10/The-Baucus-Plan-Implications-for-Small-and-Medium-Sized-Firms>.
4. Edmund F. Haislmaier, “State Health Care Reform: An Update on Utah’s Reform,” Heritage Foundation *Backgrounder* No. 2399, April 9, 2010, at <http://www.heritage.org/Research/Reports/2010/04/State-Health-Care-Reform-An-Update-on-Utahs-Reform>.
5. John McDonald, “Health Plan Differences: Fully-Insured vs. Self-Insured,” Employee Benefit Research Institute, February 11, 2009, at <http://www.ebri.org/pdf/FFE114.11Feb09.Final.pdf> (April 20, 2010). See also Senator Sam Brownback and Representative Kevin Brady, “Unwinding Obamacare: New Tax Could Boost Small Business Premiums an Extra \$1,000 a Year,” Joint Economic Committee, April 22, 2010, at http://jec.senate.gov/republicans/public/_files/UnwindingObamacareNewTaxCouldBoostSmallBusinessPremiumsanExtra1000aYear_042210.pdf (April 23, 2010).
6. Edmund F. Haislmaier, “The Senate Health Bill: Cost of the Insurance Premium Tax to Individuals and Families,” Heritage *Backgrounder* No. 2035, December 9, 2009, at <http://www.heritage.org/Research/Reports/2009/12/The-Senate-Health-Bill-Cost-of-the-Insurance-Premium-Tax-to-Individuals-and-Families>.
7. Beginning in 2012, all businesses will have to send Corporate 1099-MISC forms for every business-to-business transaction of \$600 or greater. This tax reporting change will disproportionately burden small businesses compared to large businesses, since small businesses rely more on costly external accounting services for such compliance issues.
8. These tax increases—applying to business “flow-through” income—will affect individual tax filers earning \$200,000 or more per year and families earning \$250,000 or more per year.

thresholds on this tax increase are not indexed to inflation and, consequently, will push more small business owners into this higher tax group.⁹ The Medicare “investment” tax will also lead to greater deterrence on investment—and passive income—which will suppress economic growth.

Penalizing Business Growth and Success. Businesses will not take much comfort from the passage of this “historic” health care bill. The President and many lawmakers in Washington are consistently proposing and passing legislation that

hurts these businesses, and Obamacare is one more example.

Obamacare fails to appropriately address the concerns of small- and medium-size businesses relating to health care reform, and it will force many companies to react to new cost burdens. The intended consequences of this poorly constructed bill are harmful enough, but the many unintended consequences are even worse.

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9. Scott Hodge, “Putting a Face on Americas Tax Returns,” Tax Foundation, November 1, 2005, at <http://www.taxfoundation.org/files/dba37618d9c2d2df02f24766ac4cc39d.pdf> (April 16, 2010).