

# ISSUE BRIEF

No. 4026 | AUGUST 26, 2013

## Obamacare's Impact on Businesses: An Update

*Alyene Senger*

Obamacare will impose new health coverage costs, the employer mandate, compliance regulations, and new taxes on all businesses. Altogether, these constraints will dramatically affect companies' per-employee costs, desire to provide health coverage, and motivation to grow in terms of both income and employment.

**Further Burdening Businesses.** Obamacare is likely to exacerbate many of the concerns and costs that are already burdening businesses—particularly small-business owners—in at least four ways.

1. *Higher Health Care Costs.* Obamacare does nothing to reduce the continually increasing costs facing businesses that provide health insurance coverage. In fact, Obamacare's wide variety of benefit and coverage mandates—combined with new taxes, fees, and penalties—will increase the cost of providing coverage.

The increased costs of health insurance might lead employers with fewer than 50 employees to drop coverage if they currently offer it, as there is nothing in Obamacare that would prevent them from doing so.

Employers that do offer coverage might respond by changing their health plans to accommodate

the cost increases. For example, UPS has restructured its coverage to exclude the working spouses of its employees. The company expects this to affect 15,000 employees for an annual savings of \$60 million. UPS very clearly cites additional costs imposed by Obamacare as a contributing factor in its decision, listing several Obamacare provisions that increased their costs.<sup>1</sup>

2. *Employer Mandate.* Obamacare's employer mandate forces all employers with more than 50 full-time employees—defined as those who work at least 30 hours per week—to provide health insurance for employees or pay a penalty of \$2,000 per employee (excluding the first 30) or \$3,000 per employee that receives a premium subsidy, whichever is less.

This creates an incentive for businesses to avoid both the penalty and cost of coverage by hiring part-time employees instead of full-time employees, since businesses will not be penalized for failing to provide health insurance to part-time employees. This affects a wide range of businesses, but it hits low-income workers particularly hard.<sup>2</sup> Adjunct professors, certain state government employees, and many fast-food and retail industry workers have already been impacted.<sup>3</sup>

The Obama Administration has unilaterally delayed enforcement of the employer mandate for one year, but a temporary delay is of little help, because many employers had already cut hours and will not choose to increase hours again now only to cut them again next year.

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

---

This paper, in its entirety, can be found at <http://report.heritage.org/ib4026>

Produced by the Center for Health Policy Studies

**The Heritage Foundation**  
214 Massachusetts Avenue, NE  
Washington, DC 20002  
(202) 546-4400 | [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

incur higher external accounting expenses—to handle the enhanced compliance regulations on health insurance plans.

4. *Medicare Taxes on Flow-Through and Investment Income.* Obamacare increases the Medicare payroll tax by 0.9 percent and establishes a new 3.8 percent Medicare surtax on unearned (investment) income such as capital gains and dividends for high-income earners. The increased payroll tax, in addition to wage and salary income, applies to “flow-through” business income<sup>4</sup> earned by small businesses.

Small businesses are major job creators, and higher taxes on them will slow job creation. Moreover, the wage thresholds on this tax increase are not indexed to inflation and, consequently, will push more small-business owners into this higher tax group as time goes on. The new surtax creates an even greater deterrence to investment than the tax code applied previously. This new extra deterrence to investment will add to the tax code’s already substantial drag on economic growth.

**Obamacare Policies Already Failing Small Businesses.** Obamacare did include some specific policies intended to help small businesses, but they are falling far short of expectations.

*Small Business Tax Credit.* Obamacare provides tax credits to small employers that provide health insurance for workers who earn relatively low average wages. However, the credit is temporary and is available for a maximum of only six years and for only two years after the exchanges begin operating in 2014. The credit amount is reduced as firm size increases and as the average employee wage increases.

The credit has largely failed to encourage small employers to offer health insurance to their employees, with only 7 percent of the 4.4 million potentially eligible employers claiming it by mid-2011. J. Russell George, Treasury Inspector General for Tax Administration, testified before Congress that “through mid-October 2011, the IRS reported that 309,000 taxpayers...had claimed the Credit for a total amount of \$416 million. This is substantially lower than the Congressional Budget Office estimate that taxpayers would claim up to \$2 billion of Credit for Tax Year 2010.”<sup>5</sup>

In an analysis of the credit’s low use and complexity, the Government Accountability Office attributed the low claim rate largely to the credit’s design.<sup>6</sup> The credit amount is not high enough to incentivize employers to offer coverage and is so complex and time-consuming that small businesses are reluctant to apply for it.

*Delay in SHOP Exchange Requirement.* In the process of Obamacare’s massive implementation, several pieces of the law have been delayed or changed. One delay that particularly impacts small businesses is a requirement in the Small Business Health Options Program (SHOP) exchange.

While the SHOP exchange held little benefit to begin with, the Obama Administration has postponed its most meaningful aspect: the ability for employees to choose their health plans and premium aggregation. As health policy scholar Timothy Jost writes, the delay will “disappoint those who have seen employee choice as the primary benefit of the SHOP exchange. It also leaves unclear what

1. UPS, “Working Spouse Eligibility: Frequently Asked Questions,” revised July 15, 2013, p. 18, <http://capsules.kaiserhealthnews.org/wp-content/uploads/2013/08/UPS-Spousal-Coverage.pdf> (accessed August 26, 2013).
2. James Sherk, “Obamacare Will Price Less Skilled Workers Out of Full-Time Jobs,” Heritage Foundation *WebMemo* No. 3390, October 11, 2011, <http://www.heritage.org/research/reports/2011/10/obamacare-will-price-less-skilled-workers-out-of-full-time-jobs>.
3. See Alyene Senger, “10 Stories of Job Loss as Consequences of Obamacare,” The Heritage Foundation, *The Foundry*, March 11, 2013, <http://blog.heritage.org/2013/03/11/ten-stories-of-job-loss-as-consequences-of-obamacare/>.
4. Flow-through income is business income taxed on the individual owners of the business’s tax returns rather than at the business level. Such business income generally comes through S-Corps, LLCs, partnerships, and sole proprietorships.
5. J. Russell George, Treasury Inspector General for Tax Administration, “Implementation and Effectiveness of the Small Business Health Care Tax Credit,” testimony before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, November 15, 2011, <http://waysandmeans.house.gov/uploadedfiles/georgetestimonyos911.pdf> (accessed August 26, 2013).
6. U.S. Government Accountability Office, *Small Employer Health Tax Credit: Factors Contributing to Low Use and Complexity*, GAO-12-549, May 2012, <http://www.gao.gov/assets/600/590832.pdf> (accessed August 26, 2013).

advantage the SHOP exchange offers employers over the outside small-group market.”<sup>7</sup>

**Obamacare Is Bad for Business.** Obamacare saddles businesses with more burdens than benefits. Not only do Obamacare’s policies fail to help small businesses in the way intended, but the unintended consequences of its mandates and

regulations are even worse. As Obamacare’s full implementation nears, its increased costs and complexities are likely to significantly hinder business growth and success.

—*Alyene Senger is a Research Associate in the Center for Health Policy Studies at The Heritage Foundation.*

---

7. Timothy Jost, “Implementing Health Reform: A Burst of Regulatory Activity,” March 1, 2013, *Health Affairs* blog, <http://healthaffairs.org/blog/2013/03/01/implementing-health-reform-a-burst-of-regulatory-activity/> (accessed August 26, 2013).