



Pennsylvania
U.S. Senator Bob Casey



WHAT DOES HEALTH CARE REFORM MEAN FOR PENNSYLVANIA'S SMALL BUSINESSES?

1. As a Pennsylvania small business owner, why do I need to pay attention to health care reform?

- Small businesses make up 73.6% of all Pennsylvania businesses, yet just 48.7% of these small businesses are able to offer health insurance to their employees.
- 28 million Americans who lack insurance are small business owners, workers, and their families.
- The 151,000 Pennsylvania small businesses that are eligible for health care reform tax credits employ 654,689 Pennsylvanians.
- Health care reform will create 11,400-18,300 PA jobs by reducing employer health care costs.

2. As a small business owner, what penalties will I face if I don't offer my employees insurance?

The law requires that employers with more than 50 employees (counted on a full-time equivalent or "FTE" basis) provide health benefits to their full-time employees.

So starting in 2014, if you have more than 50 employees and you do not offer coverage, you will be subject to a penalty (called the shared responsibility payment) if you have at least one full-time employee receiving a tax credit to help them afford their premiums. Under the Patient Protection and Affordable Care Act, 96% of PA's employers are small businesses that will be exempt from the shared responsibility requirement.

The payment will be equal to \$2,000 per full-time employee, but the calculation will exclude the first 30 full-time employees and will not count any part-time employees.

EXAMPLE: If you have 51 full-time employees and 15 part-time employees throughout the year, and one full-time employee is receiving a tax credit to help them buy health insurance, your business will have to pay:

$$\begin{array}{r} 51 \text{ (the number of full time employees)} \\ - 30 \text{ (the first 30 employees are excluded)} \\ \hline 21 \times \$ 2,000 = \$ 42,000 \end{array}$$

In recognition that payrolls rise and fall from month to month, all calculations will be made on a monthly basis using a payment of 1/12 of \$2,000. Also, employers will be allowed to impose a 90-day waiting period before health benefits are provided to new employees.

3. Why are employers with more than 50 employees required to make these payments?

For too long, those who had health insurance bore an unfair burden in higher premiums to subsidize those without health insurance. The new health reform law breaks that pattern and is based on the principle of shared responsibility. The law is built on the premise that employers with more than 50 employees should provide health benefits to their full-time

employees if the alternative is that taxpayers will have to subsidize those workers so that they can obtain affordable coverage in the exchange.

4. How much of a tax credit will I receive if I provide health insurance to my employees?

Starting in 2010, many small businesses are eligible for a tax credit of up to 35% of their premiums if they choose to offer health insurance to their employees. The full credit is available to businesses with 10 or fewer employees with average annual wages of \$25,000 or less. Reduced credits are available above those limits, and the credit is phased out when the business reaches 25 employees and average annual wages of \$50,000. Nonprofit organizations will qualify for tax credits of up to 35% of the employer contribution during this time period.

Once the Exchange is up and running in 2014, tax credits will be available for two additional years. In those years, the credit will be available for up to 50 percent of the premiums paid.

5. How much of the health insurance costs do I have to cover in order to be eligible for the small business tax credit?

To be eligible for the tax credit, the employer must contribute at least 50 percent of the total premium cost.

EXAMPLE: Your business employs 6 people with average annual wages of \$24,000. Health insurance premiums for these employees total \$40,000 per year and you contribute half of that amount (\$20,000.) You would qualify for the full 35% tax credit, or \$7,000 per year. The remaining \$13,000 in employer health insurance premium expenses is subject to the tax deduction policies that have been in place for employer based health insurance prior to health reform.

6. Do I have to provide both full-time and part-time employees with health insurance?

While employers are encouraged to cover part-time workers, the penalty for not providing health insurance to your employees only applies to full-time employees and only applies to employers with more than 50 full-time equivalent employees.

7. How does the legislation define a full-time employee?

A full-time employee is an employee who is employed on average at least 30 hours per week.

8. I have more than 50 seasonal employees at certain times of the year. Am I required to provide them with health insurance during the months they work for me? If so, do I have to cover them all year?

The new law includes an exclusion for certain businesses that have seasonal employees. Unless the employer is eligible for this exclusion, the employer is subject to a penalty beginning in 2014.

The exclusion is as follows: an employer is not considered to employ more than 50 employees if

- the employer's workforce exceeds 50 full-time employees for no more than 120 days during the calendar year, and
- the additional employees that caused the employer to exceed the 50 employee threshold during that 120-day period were seasonal workers.

All calculations are made on a monthly basis, so an employer is not responsible to provide health insurance benefits or pay penalties for workers in months they do not work.

9. I would like to provide coverage if I can afford it. Will it be any easier to find affordable coverage than it is today?

Yes. The new health insurance Exchange will have a special section specifically for small businesses. It is called SHOP, the Small Business Health Options Program.

Starting in 2014, it will allow small employers and their employees to choose from a range of health plans that compete for your business in an open market called the exchange. Prices should be more competitive because of the Exchange, and you should have more choices - including new multi-state plans offered exclusively through the exchange.

10. Will my employees be able to buy coverage if I cannot afford to provide it?

If you cannot provide coverage, your employees will be able to purchase health insurance in a new Exchange - an internet-based marketplace where private health insurance plans compete in an open forum for customers. Families with an income of up to 400% of the poverty level (see chart below) will be eligible for tax credits to help them afford the coverage. However, if you have more than 50 full-time equivalent employees, you will be expected to provide health insurance for your employees or pay a penalty.

Persons in Family	Poverty Level	Eligibility Level
1	\$ 10,830	\$ 43,320
2	14,570	58,280
3	18,310	73,240
4	22,050	88,200
5	25,790	103,160
6	29,530	118,120
7	33,270	133,080
8	37,010	148,040
For families with more than 8 persons, add \$3,740 for each additional person.		

11. How does health care reform affect my small business's tax responsibility?

To help pay for making health insurance affordable for small businesses and the middle class, the bill provides a modest increase in taxes for the nation's highest earners.

Specifically, the bill slightly increases the Medicare Hospital Insurance (HI) tax on the portion of wages and self-employment income above \$200,000 for individuals and \$250,000 for married couples. It also broadens the taxable base of the HI tax to apply to dividends, interest, and other unearned income for individuals with incomes above \$200,000 and couples with incomes above \$250,000. In broadening the base to apply to unearned income, the bill explicitly exempts income actively earned by people running a small, closely-held business (for example, active income earned from shares in an S corporation).

Please visit Senator Casey's website for more information on what health care reform means for PA's small businesses. Other websites that may be helpful are <http://www.irs.gov/newsroom/article/0,,id=223666,00.html> and <http://smallbusinessmajority.org/tax-credit-calculator/>.