



**National Association  
for the Self-Employed**

Legislative Office  
325 7th Street, NW, Suite 250  
Washington, DC 20004  
P: 202-466-2100  
F: 202-466-2123  
www.NASE.org

**Statement for the Record  
Submitted to the Ways and Means Committee  
United States House of Representatives  
Washington, D.C.**

**“Tax-Related Provisions in the President’s Health Care Law”**

**Submitted by Kristie Arslan  
CEO & President, National Association for the Self-Employed  
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The National Association for the Self-Employed (NASE) respectfully submits this official statement for the record on the Subcommittee on Oversight’s hearing held on Tuesday, March 5, 2013. For the 22 million self-employed Americans (**78% of all small business in the United States**), we continue to voice the same concerns we have had on the tax-related provisions included in the Affordable Care Act and their impact on America’s smallest businesses, the self-employed.

Since the beginning of the health care reform debate, the NASE has loudly voiced its opinion that if there was a requirement to purchase a mandated level of coverage that it must be coupled with market reforms that ensured that the cost of health insurance would not grow in such a way that it would place an impossible burden on Americans to purchase health insurance. Sadly, this has become a reality. In 2009, the Congressional Budget Office (CBO) released a report estimating that health insurance premiums for the individual market will increase by 10%-13% in 2014 due to the coverage requirements, also known as the Essential Health Benefits.

**Impact of Health Insurance Costs**

The self-employed represent the largest segment of the small business sector, increasing out-of-pocket expense has an immediate and negative impact on their business and household income. In our June 2012 *Access to Health Coverage and Attitudes in Health Reform: A Self-Employed Perspective*, the great majority (84.9%) of the respondents indicate that rising health coverage costs have been detrimental to themselves, their families, and their business over the past three years. Most acute has been the “bottom line” impact — 53.9% say rising health coverage costs have cut their household income. Significant responses are also seen for having to scale back/drop health coverage (cited by 37.5%). Business-specific impacts are also clearly seen: 27.4% say their “business is struggling to survive,” and more than one in ten say they have cancelled/put on hold plans to hire new employees and/or expand their business.

### **Small Business Tax Credit**

For the self-employed, the health insurance mandate fundamentally changes how they purchase health insurance and with very little consideration of the significantly higher costs they will now be required to burden.

For example, the Small Business Tax Credit provides minuscule relief for those self-employed/micro-businesses owners that offer health insurance, a recent NASE survey found that only 18.6% of our members provided employer-sponsored coverage, while the remaining cited the high cost as the reason why they do not offer health insurance for their employees. For those qualifying small businesses, you must drop your existing coverage and move into the exchange market, all but guarantying a 10%-13% increase in your health insurance premiums due to the minimum coverage requirements dictated by the Essential Health Benefits and then the **tax credit is only available for two years.**

The approximate 22 million self-employed business owners are excluded from eligibility for the Small Business Tax Credit, leaving the premium assistance tax credits in the individual exchanges as their only avenue for financial assistance to afford health coverage. The fact is a substantial amount of these self-employed business owners will not qualify for the necessary premium assistance that will be needed to offset the increased cost of health insurance leaving America's smallest businesses in a far more financially precarious position than prior to health reform.

Simply put the Affordable Care Act does not include any significant tax benefit for the self-employed/micro-business community to purchase health insurance for their employees and in fact, does very little to encourage business owners to comply with the mandate due to the outrageous increase in health insurance premiums.

### **Further Market Reforms**

While the daunting task of ensuring the Affordable Care Act and its 46 tax provisions are implemented and given adequate oversight, the NASE has proposed changes to the current tax code that would help the self-employed when it comes to purchasing health insurance:

- ***Full deduction of health insurance costs for the self-employed.***
  - This would have the single greatest impact on motivating the self-employed to engage in the new health insurance exchange market. 78% of all small businesses are currently treated unfairly under the current tax code, paying nearly 15.3% in additional taxes annually due to their inability to deduct the cost of their health insurance as a business expense, **a tax benefit provided to all other businesses.** If the self-employed were treated equitably under the tax code, this would be an estimated cost savings to the small business owner of \$887 (individual) and \$2,325 (family);

- ***Expansion of Health Reimbursement Arrangements (HRAs).***
  - Under the current law, the self-employed business owner (sole-proprietor) is unfairly discriminated against in participating in an HRA. This flexible benefit option currently allows small business owners to reimburse employees tax-free for out-of-pocket medical costs up to an amount designated by the business owner. Under current law, the business owner is unable to take part in this benefit. Allowing the owner to participate in an HRA will increase the take up of this tax tool allowing both business owners and their employees to receive financial assistance for their health costs. The employee receives financial assistance for health related expenses and the employer, while benefitting personally, also receives a tax-deduction for the expense - a true win-win scenario.

### **Conclusion**

We appreciate the Committee's willingness to discuss the tax-related issues to the Affordable Care Act and its impact on the small business community. Regardless of business size or type, complying with the tax code is the great leveler for all businesses which is why any tax provisions relating to health reform are critical to the business community. It is our hope that the full Committee will work with its counter-parts on the Energy and Commerce Committee to improve the health reform law and address the above market reforms that would create a better health care system and ensure that the self-employed are treated equitably under the tax code.