


ObamaCare: the Burden on Small Business

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(Michael F. Cannon/Cato Institute) - How will ObamaCare affect a small business owner who's married with two kids?

For one thing, he and his business will pay higher health premiums beginning this year.

He and his employees will have to purchase unlimited lifetime coverage and unlimited annual coverage (this requirement phases in between now and 2014). The Obama administration estimates that these mandates alone could increase premiums for some businesses by 7 percent.

He and his employees will have to purchase coverage for dependent children without any waiting periods for pre-existing conditions. Another mandate will require them to purchase coverage for dependents up to age 26. One private estimate puts the cost of this "slacker" mandate an average of 2 percent, but our small-business owner's premiums may rise even more. Perversely, the cost may force him to drop dependent coverage entirely.

If his health plan loses its "grandfathered" status — as most small businesses will — he and his workers will have to purchase 100-percent coverage for a long list of preventive services. The administration estimates this mandate will increase premiums on average by 1.5 percent, but private estimates are in the range of 3-4 percent.

The Obama administration also acknowledges there is "tremendous," "substantial," and "considerable" uncertainty about these mandates' costs. That is, they may be higher than the administration says.

These mandates are a double-whammy for our small-business owner. He already faces some of the highest premiums out there. Yet he also provides some of the least comprehensive health plans. So his premiums will rise more than larger employers' premiums will.

According to HHS, these added costs will likely push him to switch health plans, and he will likely switch to a plan that complies with the mandates, but places tight restrictions on accessing care.

If he offers his workers a health savings account (HSA), medical savings account (MSA), flexible spending account (FSA), or health reimbursement arrangement (HRA), its employees will lose the ability to purchase over-the-counter drugs tax-free. If they make non-medical withdrawals from their HSA or MSA, the penalty will double from 10 percent to 20 percent.

If his small business is a tanning salon, it is already paying a new 10-percent tax on its sales.

The Obama administration is quick to note that beginning in 2010, one third of small businesses may be able to get a tax credit that covers up to 35 percent of their health-benefits. But that credit is not a long-term solution to rising costs; it disappears after 6 years, and often sooner. It will also discourage hiring, because hiring too many workers will reduce or eliminate the credit.

By 2013, all businesses will have to fill out an IRS Form 1099 every time they purchase more than \$600 worth of stuff from a vendor. If our small-business owner owns a trucking company, he will have to ask gas stations for their tax ID numbers. If the gas stations don't cooperate, he will have to withhold money (i.e., send it to the IRS) for gas expenses. This will be the biggest nightmare in the bill for small businesses. Ironically, it will also hit many doctors, journalists, and others who supported ObamaCare, but run their own small business on the side.

If our small-business owner and his wife make over \$250,000, they'll pay the new, higher Medicare "payroll" tax of 3.8 percent, starting in 2013.

(It's currently 2.9 percent).

But it's 2014 where things really get messy. That's when the government will require everyone to purchase even more yet-unspecified types of coverage, which will cause premiums to rise even more.

If our small-business owner has 50 or more employees — or fewer full-time employees and lots of part-timers — he faces the prospect of tens of thousands of dollars in penalties under ObamaCare's employer mandate if he does not provide "adequate" coverage to his workers.

The worst part is that these penalties will be triggered by factors that are unpredictable, unobservable, and totally beyond the control of our small-business owner. He could get hit with those penalties simply because a worker's spouse loses or changes jobs. Or if a worker's spouse moves out or dies. Or if an employee's parents move in.

This creates so much uncertainty that a small-business owner with 55 employees may have to fire six of them just to eliminate that potential liability.

But if he splits his 60-employee small business into two 25-employee businesses, then the federal government — maybe the IRS — will start snooping around to determine whether he did so for legitimate business reasons or just to avoid the mandate.

No matter the size of his firm, if he or his workers earn around \$30,000 to \$100,000 and get coverage through one of the new health insurance exchanges, their implicit marginal tax rates will jump from around 30-40 percent all the way up to 60-75 percent!

In many cases, if his employees get a raise or work more hours, ObamaCare will leave them with less take-home pay, because the higher earnings will cause them to lose thousands of dollars in subsidies. Their implicit marginal tax rate will exceed 100 percent!

Our small-business owner is paying all these costs now — and so are his workers, and the unemployed.

ObamaCare has created enormous uncertainty. Our small-business owner doesn't have any idea what ObamaCare's mandates will cost him in 2011, 2012, 2013, or 2014. Or what additional benefits he will have to provide. Or what kind of insurance options will be available by then. All he knows is that these things will cost him more — possibly a lot more — and that he's going to be spending lots of time and money, for the foreseeable future, on tax accountants and attorneys.

And he's going to be much less likely to take on new commitments like expanding or hiring new workers.

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