

## Tax Credit Changes Game for Small Businesses

Samuel H. Fleet

Oct 11, 2010

As health insurance costs have continued their upward spiral, many agents and brokers have had to become used to being the bearers of bad news to employers struggling to stay afloat. The Small Business Health Care Tax Credit, however, is a chance to deliver a positive message – and even encourage an expansion of benefits.

Although the specific provisions of the tax credit are complex, the overall message is simple: Beginning this year, small businesses can take up to 35 percent of the cost of their premiums off their taxes.

For businesses already providing health benefits, the subsidy gives them a cushion that may allow them to consider adding vision, dental or other benefits valued by employees. For businesses that have not been able to afford health insurance, the tax credit may mean benefits will now pencil out as feasible.

By helping companies understand the new tax credit and running the numbers to determine how it impacts their benefit costs, agents can strengthen their relationship as a valued partner to their existing small business customers and reach out to new prospects.

### It Isn't Easy Being Small

For agents new to the small business sector, it's important to understand the challenges their potential customers face. Agents who already cater to these customers are all too familiar with the difficulties of crafting affordable benefit packages for companies with fewer than 25 employees.

Statistics provide the context. For example, companies with nine or fewer workers paid 18 percent more in premiums than companies with at least 100 employees, according to a 2006 study by the Commonwealth Fund. In addition, the Congressional Budget Office estimates that administrative costs were also higher: 27 percent versus 9 percent.

Studies by the Kaiser Family Foundation have found that small business health insurance premiums have risen 113 percent over the past nine years, or nearly 9 percent annually. The total cost of health benefits to small businesses in 2009 was \$156 billion.

The impact of the higher costs has been predictable: Fewer small businesses provide benefits for their employees. Kaiser reports that while 99 percent of large firms offer health coverage, the figure drops to 78 percent for those with 10 to 24 workers and only 49 percent for those with fewer than 10 workers. As costs have risen, the percentage has dropped, declining from 57 percent in 2000 to 49 percent in 2008.

### How the Tax Credit Works

The Small Business Health Care Tax Credit combats the rising costs and is designed to encourage small businesses to continue or begin to provide health benefits. The White House Council of Economic Advisors estimates that four million small businesses are eligible for the tax credit, and the Congressional Budget Office says small businesses will save \$40 billion by 2019.

How each business is impacted by the credit, however, depends on a number of variables. The following are the key points:

As of January 1, 2010, for-profit businesses may receive up to a 35 percent tax credit for the health care premiums they pay. The credit rises to 50 percent in 2014. Non-profits are eligible for a 25 percent tax credit that increases to 35 percent in 2014.

Businesses are eligible for the full tax credit if they have fewer than 10 full-time-equivalent workers and if their employees (not counting owners and employed family members) make an average of less than \$25,000. The credit is reduced for companies with more than 10 employees and average wages above \$25,000, phasing out completely at 25 workers and \$50,000.

Because the employee count is a full-time-equivalent measure, companies that have part-time employees may be eligible even though they have more than 25 different individuals on their payroll.

The employer must cover at least 50 percent of the costs for coverage of an employee-only plan. An employer's eligible contribution, however, is limited to the average cost of health insurance in the state where the business is located.

For non-profits, the tax credit is refundable if there is no taxable income. For-profit businesses may only use the tax credit to offset income, but can carry the amount forward for up to 20 years.

The credit can be claimed for up to six years – each year from 2010 through 2013, and then for any two years after that.

The IRS has announced it is making broad efforts to spread the word because many small businesses are unaware of the tax credit or do not know that it applies to premiums paid during this calendar year. For agents and brokers, the opportunity to reach out is significant, especially since the new tax credit opens the door for many small businesses to reconsider their benefit decisions. Of the 45 million uninsured Americans, just about half are self-employed or work for small businesses, according to the Employee Benefit Research Institute.

The audience is expected to be receptive. A Small Business Majority survey of small businesses in 18 large and mid-size states found that 86 percent who don't offer benefits say cost is the reason. More than 70 percent who do offer benefits say they are struggling to pay for them. Both of these segments could benefit from guidance by informed agents who understand the tax credit and its implications.

While businesses can be expected to turn to their accountants for specific tax advice, agents who specialize in benefit planning can play a key role in helping companies maximize the use of the credit. For example, companies may want to consider a variety of strategies, including taking advantage of the subsidies to add low-cost dental and vision plans to their benefit packages as a way to attract and retain employees.

At a time when businesses continue to look for signs of economic recovery, agents and brokers can take advantage of the Small Business Health Care Tax Credit to deliver some good news – a welcome offset for the rising cost of health benefits.

## **Samuel H. Fleet**

### **President, AmWINS Group Benefits**

Samuel H. Fleet is President of AmWINS Group Benefits, a leading wholesale broker of comprehensive group insurance programs and administrative services. With more than 20 years of health and benefit experience, Sam has guided the rapid rise of AmWINS Group Benefits from a small regional organization to one of the most successful wholesale brokers and group insurance administrators in the country.

Responding to the crisis of rising medical care and health insurance costs over the past few years, Fleet has positioned AmWINS Group Benefits as an industry leader that can offer innovative, economical solutions to help benefit brokers assist their clients. Many who are eager to continue providing their workers and retirees affordable healthcare insurance have found it increasingly difficult to cover the cost of traditional major medical plans.

Stepping up to address the market demand for small group products, AmWINS acquired the Managing Agency Group in 2009. While some industry offerings fell short of meeting customer expectations, AmWINS focused its small group business on what truly matters by emphasizing solid plan design, flawless administration and successful enrollment strategies.

AmWINS maintains solid, long-term relationships with a large network of A-rated (or better) carriers committed to the small group market. This extensive network allows AmWINS to develop plans to match the needs of companies. As a result, AmWINS has been able to serve the insurance needs of small business owners with unique dental, vision, life and AD&D trust products unique to the market.

The Managing Agency Group, Employee Benefits (MAG-EB), is a full service brokerage agency and third party administrator. MAG-EB offers competitive employer sponsored, contributory or voluntary group plans and products for group ranging from 2 to 500 employees. The vast portfolio of products and carrier relationships allows the company to provide multiple proposals with flexible, affordable plans and competitive rates for agents and brokers trying to serve the small group market.

As the founder of the company that became AmWINS Group Benefits, Sam Fleet is sought after for his knowledge and experience as a speaker at conferences of The Council of Insurance Agents and Brokers, the National Association of Life Underwriters and Benefits Selling Expo. His success has been recognized in such prestigious industry publications as Best's Review, Employee Benefit News, Benefits Selling, Business Insurance and Employee Benefits Adviser.

As the parent company of AmWINS Group Benefits, AmWINS Group, Inc. is the largest independent insurance wholesaler in the country.