



# Good BUSINESS SENSE:

The Small Business  
Health Care Tax Credit  
In the Affordable  
Care Act

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## Good Business Sense: The Small Business Health Care Tax Credit In the Affordable Care Act

A Report from Families USA and Small Business Majority

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*Families USA is the national organization for health care consumers. It is nonprofit and nonpartisan, and its mission is the achievement of high-quality, affordable health care for all Americans. Since 1982, Families USA has engaged in research and public education to promote the expansion of health coverage for uninsured people, especially low-income working families; to rein in health care costs; and to make other improvements in the health care system.*

**[www.familiesusa.org](http://www.familiesusa.org)**



*Small Business Majority is a national nonprofit, nonpartisan organization, founded and run by small business owners, that brings the voices of America's 28 million small businesses to the public policy table. It is focused on solving the single biggest problem facing small businesses: the skyrocketing cost of health care. Small Business Majority uses nonpartisan scientific research to understand and represent the interests and needs of all small businesses, from sole proprietors to 100-person companies.*

**[www.smallbusinessmajority.org](http://www.smallbusinessmajority.org)**

## Introduction

**A**cross America, small businesses are the cornerstone of state and local economies. They employ millions of workers; create more than half of our private, non-farm gross domestic product; drive innovation; and contribute to our communities in large cities, suburban settings, and rural towns. Despite these strengths, small businesses often operate with thin profit margins and, partly as a result, are less likely than big business to be able to offer health coverage to their workers.

To address this problem, Congress included in the Affordable Care Act a significant new tax credit for small business owners who provide their workers with health insurance. Under this new tax credit, businesses that have fewer than 25 full-time workers and average wages of less than \$50,000 are now eligible to receive a tax credit of up to 35 percent of the cost of the health insurance that they provide for their workers. To qualify for the tax credit, small businesses must cover at least 50 percent of each employee's health insurance premiums. In 2014, the size of the credit will increase to cover up to 50 percent of the cost of health insurance provided to workers. (For more details on how the tax credit works, see page 11.)

To understand the reach of this new small business health care tax credit, Families USA and Small Business Majority commissioned The Lewin Group to develop estimates of the number of small businesses that are eligible for this new tax break in tax year 2011 and how many workers could potentially benefit as a result. The Lewin Group used their widely respected Health Benefits Simulation Model for these estimates.

Our analysis found that more than 3.2 million small businesses, employing 19.3 million workers across the nation, will be eligible for this tax credit when they file their 2011 taxes. In total, these small businesses are eligible for more than \$15.4 billion in credits for the 2011 tax year alone, an average of \$800 per employee.

While the potential reach of this new tax credit is great, educating the small business community about it remains a challenge. As with other new programs, awareness of the new tax credit will grow over time, but the federal government must still partner with the small business community to conduct outreach to eligible small business owners. Unfortunately, the current heated political debate about the Affordable Care Act has created additional barriers to effectively reaching America's small business owners with the facts about this new tax credit.

### A Note about the Definition of “Small Business”

There are many different definitions of “small business.” Some are based on the number of employees, and some are based on sales volume. For the purpose of this analysis, the term “small business” refers to firms that have fewer than 25 full-time employees (or full-time equivalents). Small business owners, their families, and any shareholders are excluded from calculations of average wages and of the number of full-time equivalent positions. Where we refer to research that uses a different definition of small business, we have made that difference clear in the text.

## Key Findings

### Millions of Small Businesses Are Eligible for Help with Health Insurance Premiums

- More than 3.2 million small businesses (70.1 percent of businesses with fewer than 25 workers) are eligible for tax credits to help with the cost of health coverage for their workers for the 2011 tax year (Table 1).
- More than 1.3 million small businesses are eligible for the *maximum* tax credit when they file their 2011 taxes (Table 1).
- More than two in five (40.3 percent of) small businesses that are eligible for this tax credit are eligible for the *maximum* tax credit when they file their 2011 taxes (Table 1).

### Workers in Firms Eligible for Help with Health Insurance Premiums

- Nearly 19.3 million Americans are employed by a small business that is eligible for a tax credit for the 2011 tax year (Table 2).
- Of these workers, nearly 5.8 million are employed by a small business that is eligible for the *maximum* credit (Table 3).
- The total value of the tax credits that are available to eligible small businesses for 2011 is more than \$15.4 billion, an average of \$800 per worker (Table 2).
- The total value of the tax credits that are available to small businesses eligible for the *maximum* credit is more than \$6.1 billion, an average of \$1,066 per worker (Table 3).

Table 1.

## Small Businesses Eligible for Health Care Tax Credits, 2011

State	Total Small Businesses	Share of Total Small Businesses			
		Eligible for Credit		Eligible for Maximum (35%) Credit	
		Number	Percent of Total Small Businesses	Number	Percent of Eligible Small Businesses
Alabama	56,730	40,490	71.4%	16,080	39.7%
Alaska	12,780	8,930	69.9%	3,420	38.3%
Arizona	75,980	54,920	72.3%	23,560	42.9%
Arkansas	40,520	30,710	75.8%	13,760	44.8%
California	535,200	375,310	70.1%	158,430	42.2%
Colorado	102,540	70,360	68.6%	27,800	39.5%
Connecticut	56,850	36,620	64.4%	13,490	36.8%
Delaware	14,150	9,670	68.3%	3,640	37.7%
District of Columbia	11,460	7,120	62.2%	2,380	33.4%
Florida	310,650	222,350	71.6%	91,620	41.2%
Georgia	131,830	94,100	71.4%	38,340	40.7%
Hawaii	19,270	11,740	60.9%	3,950	33.7%
Idaho	27,990	20,440	73.0%	8,700	42.6%
Illinois	198,910	137,900	69.3%	54,130	39.3%
Indiana	86,680	61,410	70.9%	23,950	39.0%
Iowa	57,440	41,090	71.5%	16,070	39.1%
Kansas	50,330	35,890	71.3%	14,800	41.2%
Kentucky	56,470	40,410	71.5%	16,140	39.9%
Louisiana	63,410	45,380	71.6%	18,530	40.8%
Maine	27,760	19,710	71.0%	7,690	39.0%
Maryland	80,830	53,470	66.1%	20,330	38.0%
Massachusetts	103,770	64,720	62.4%	23,320	36.0%
Michigan	145,050	99,570	68.6%	38,450	38.6%
Minnesota	96,190	65,980	68.6%	25,440	38.6%
Mississippi	34,790	26,150	75.2%	11,490	43.9%
Missouri	91,350	64,970	71.1%	25,880	39.8%
Montana	27,050	19,600	72.5%	8,060	41.1%
Nebraska	37,310	26,670	71.5%	10,500	39.4%
Nevada	31,720	21,980	69.3%	8,280	37.7%
New Hampshire	24,000	15,610	65.0%	5,580	35.8%
New Jersey	146,700	95,470	65.1%	36,680	38.4%
New Mexico	27,560	20,120	73.0%	8,910	44.3%
New York	339,510	232,730	68.5%	93,230	40.1%
North Carolina	130,130	93,110	71.6%	37,420	40.2%
North Dakota	16,500	11,630	70.5%	4,610	39.6%
Ohio	152,980	107,210	70.1%	41,620	38.8%
Oklahoma	55,450	40,320	72.7%	16,810	41.7%
Oregon	73,160	51,360	70.2%	20,970	40.8%
Pennsylvania	193,140	131,870	68.3%	49,310	37.4%
Rhode Island	18,400	12,290	66.8%	4,580	37.3%
South Carolina	62,480	45,560	72.9%	18,650	40.9%
South Dakota	18,930	13,520	71.4%	5,390	39.9%
Tennessee	74,570	54,310	72.8%	21,940	40.4%
Texas	312,470	235,540	75.4%	106,350	45.2%
Utah	41,200	29,280	71.1%	11,400	38.9%
Vermont	15,070	10,350	68.7%	3,940	38.0%
Virginia	112,090	76,260	68.0%	29,630	38.8%
Washington	109,440	73,880	67.5%	28,700	38.9%
West Virginia	22,830	16,730	73.3%	7,030	42.1%
Wisconsin	89,650	62,830	70.1%	23,730	37.8%
Wyoming	14,260	10,580	74.2%	4,650	43.9%
<b>United States</b>	<b>4,635,510</b>	<b>3,248,230</b>	<b>70.1%</b>	<b>1,309,360</b>	<b>40.3%</b>

Source: Estimates developed by The Lewin Group for Families USA and Small Business Majority. For more details, see the Methodology on page 19.

Table 2.

## People Employed by Small Businesses Eligible for Health Care Tax Credits, 2011

State	Total Number Employed by Small Businesses	People Employed by Small Businesses Eligible for Credit			
		Number	Percent	Total Dollar Value of Credit	Average Credit Per Worker
Alabama	413,800	264,500	63.9%	\$217,418,600	\$822
Alaska	68,600	43,900	64.0%	\$35,493,000	\$809
Arizona	639,100	420,800	65.8%	\$301,908,000	\$718
Arkansas	285,300	196,200	68.8%	\$132,619,700	\$676
California	3,813,400	2,442,900	64.1%	\$1,836,269,100	\$752
Colorado	534,500	335,400	62.8%	\$264,874,400	\$790
Connecticut	327,400	192,400	58.8%	\$166,260,300	\$864
Delaware	79,200	48,500	61.2%	\$39,665,600	\$818
District of Columbia	51,100	28,100	54.9%	\$20,672,800	\$737
Florida	2,160,300	1,428,900	66.1%	\$1,092,502,800	\$765
Georgia	929,600	602,500	64.8%	\$464,065,700	\$770
Hawaii	124,300	69,600	56.0%	\$57,574,500	\$828
Idaho	169,700	112,600	66.3%	\$82,799,700	\$735
Illinois	1,206,000	757,300	62.8%	\$634,615,800	\$838
Indiana	583,200	374,200	64.2%	\$320,666,900	\$857
Iowa	292,500	190,500	65.1%	\$141,830,500	\$744
Kansas	267,700	172,700	64.5%	\$125,832,900	\$729
Kentucky	382,500	247,600	64.7%	\$198,523,300	\$802
Louisiana	431,100	278,600	64.6%	\$260,006,400	\$933
Maine	134,100	87,900	65.5%	\$79,069,000	\$900
Maryland	541,800	323,700	59.8%	\$274,242,000	\$847
Massachusetts	620,600	354,900	57.2%	\$353,900,100	\$997
Michigan	942,900	583,800	61.9%	\$523,913,700	\$897
Minnesota	548,100	342,900	62.6%	\$270,009,400	\$788
Mississippi	254,000	173,400	68.3%	\$127,162,000	\$733
Missouri	591,500	385,400	65.2%	\$299,264,500	\$776
Montana	119,500	79,900	66.8%	\$60,240,600	\$754
Nebraska	179,400	116,900	65.1%	\$88,419,600	\$757
Nevada	217,800	138,100	63.4%	\$100,987,400	\$731
New Hampshire	147,500	87,000	59.0%	\$79,501,200	\$914
New Jersey	912,300	545,600	59.8%	\$485,250,300	\$889
New Mexico	198,900	134,600	67.7%	\$110,039,100	\$817
New York	2,046,400	1,294,200	63.2%	\$1,137,133,000	\$879
North Carolina	931,400	609,600	65.4%	\$470,071,500	\$771
North Dakota	70,500	45,200	64.2%	\$32,265,300	\$713
Ohio	1,005,800	633,300	63.0%	\$483,097,000	\$763
Oklahoma	322,100	213,200	66.2%	\$159,147,100	\$746
Oregon	419,700	269,700	64.3%	\$206,478,600	\$765
Pennsylvania	1,155,900	712,800	61.7%	\$612,418,500	\$859
Rhode Island	106,800	65,200	61.1%	\$56,928,600	\$873
South Carolina	441,700	292,700	66.3%	\$235,348,000	\$804
South Dakota	92,000	60,500	65.8%	\$46,885,200	\$775
Tennessee	535,000	352,600	65.9%	\$255,693,300	\$725
Texas	2,280,700	1,585,600	69.5%	\$1,191,828,900	\$752
Utah	254,300	163,100	64.1%	\$125,503,900	\$769
Vermont	74,500	47,200	63.4%	\$45,644,200	\$966
Virginia	763,500	476,100	62.4%	\$369,051,200	\$775
Washington	644,000	387,300	60.1%	\$290,089,700	\$749
West Virginia	137,100	91,600	66.8%	\$80,702,600	\$882
Wisconsin	561,300	359,900	64.1%	\$320,207,400	\$890
Wyoming	65,300	44,300	67.9%	\$40,977,800	\$925
<b>United States</b>	<b>30,075,500</b>	<b>19,265,500</b>	<b>64.1%</b>	<b>\$15,405,070,600</b>	<b>\$800</b>

Source: Estimates developed by The Lewin Group for Families USA and Small Business Majority. For more details, see the Methodology on page 19.

Table 3.

## People Employed by Small Businesses Eligible for the Maximum Health Care Tax Credit, 2011

State	Total Number Employed by Small Businesses Eligible for Credit	People Employed by Small Businesses Eligible for Maximum Credit			
		Number	Percent	Total Dollar Value of Credit	Average Credit Per Worker
Alabama	264,500	77,200	29.2%	\$84,445,400	\$1,094
Alaska	43,900	12,400	28.3%	\$13,465,300	\$1,083
Arizona	420,800	133,000	31.6%	\$125,649,200	\$945
Arkansas	196,200	67,100	34.2%	\$58,790,300	\$876
California	2,442,900	759,400	31.1%	\$759,102,300	\$1,000
Colorado	335,400	98,200	29.3%	\$104,139,500	\$1,060
Connecticut	192,400	51,900	27.0%	\$61,625,700	\$1,188
Delaware	48,500	13,200	27.2%	\$14,752,400	\$1,120
District of Columbia	28,100	7,100	25.1%	\$7,265,700	\$1,030
Florida	1,428,900	451,300	31.6%	\$454,970,200	\$1,008
Georgia	602,500	180,200	29.9%	\$185,267,100	\$1,028
Hawaii	69,600	17,500	25.1%	\$21,498,000	\$1,230
Idaho	112,600	36,200	32.1%	\$34,837,700	\$963
Illinois	757,300	220,400	29.1%	\$245,313,200	\$1,113
Indiana	374,200	105,800	28.3%	\$122,067,800	\$1,154
Iowa	190,500	54,000	28.3%	\$54,884,500	\$1,017
Kansas	172,700	52,400	30.3%	\$50,898,100	\$972
Kentucky	247,600	74,200	30.0%	\$78,877,200	\$1,063
Louisiana	278,600	83,800	30.1%	\$104,292,200	\$1,245
Maine	87,900	26,600	30.2%	\$31,611,000	\$1,190
Maryland	323,700	91,200	28.2%	\$104,947,300	\$1,151
Massachusetts	354,900	94,600	26.7%	\$129,470,400	\$1,368
Michigan	583,800	164,700	28.2%	\$199,951,000	\$1,214
Minnesota	342,900	97,300	28.4%	\$103,869,400	\$1,067
Mississippi	173,400	56,600	32.7%	\$54,487,000	\$962
Missouri	385,400	113,800	29.5%	\$118,282,300	\$1,039
Montana	79,900	25,100	31.4%	\$24,936,200	\$995
Nebraska	116,900	32,700	27.9%	\$33,779,700	\$1,034
Nevada	138,100	37,400	27.1%	\$36,873,700	\$986
New Hampshire	87,000	22,900	26.4%	\$29,167,800	\$1,271
New Jersey	545,600	153,000	28.0%	\$185,718,000	\$1,214
New Mexico	134,600	43,400	32.2%	\$46,680,200	\$1,076
New York	1,294,200	388,200	30.0%	\$453,734,600	\$1,169
North Carolina	609,600	178,800	29.3%	\$185,671,500	\$1,038
North Dakota	45,200	13,000	28.8%	\$12,559,400	\$963
Ohio	633,300	179,000	28.3%	\$184,158,700	\$1,029
Oklahoma	213,200	66,500	31.2%	\$65,451,500	\$984
Oregon	269,700	80,800	30.0%	\$82,075,300	\$1,016
Pennsylvania	712,800	196,400	27.6%	\$227,725,500	\$1,159
Rhode Island	65,200	17,600	27.1%	\$21,037,400	\$1,192
South Carolina	292,700	89,900	30.7%	\$95,606,400	\$1,064
South Dakota	60,500	18,100	29.9%	\$18,774,900	\$1,037
Tennessee	352,600	102,900	29.2%	\$99,594,300	\$968
Texas	1,585,600	517,400	32.6%	\$512,790,700	\$991
Utah	163,100	46,800	28.7%	\$48,332,700	\$1,032
Vermont	47,200	13,400	28.3%	\$17,658,600	\$1,320
Virginia	476,100	135,700	28.5%	\$142,741,200	\$1,052
Washington	387,300	112,400	29.0%	\$112,079,700	\$997
West Virginia	91,600	28,900	31.6%	\$33,379,700	\$1,155
Wisconsin	359,900	98,200	27.3%	\$120,338,700	\$1,225
Wyoming	44,300	14,900	33.6%	\$17,737,500	\$1,192
<b>United States</b>	<b>19,265,500</b>	<b>5,753,400</b>	<b>29.9%</b>	<b>\$6,133,364,300</b>	<b>\$1,066</b>

Source: Estimates developed by The Lewin Group for Families USA and Small Business Majority. For more details, see the Methodology on page 19.

## Help for Black and Hispanic Small Business Workers

- Diverse workers are employed by small businesses that are eligible for credits for tax year 2011, including the following:
  - More than 12.5 million white, non-Hispanic workers (Table 4).
  - More than 4.1 million Hispanic workers (Table 5).
  - More than 1.6 million black, non-Hispanic workers (Table 6).
- Billions of dollars of help with premiums is available to small businesses that employ Hispanic and black workers:
  - The total dollar value of the tax credits that could help white, non-Hispanic workers employed by eligible small businesses is more than \$10.1 billion for tax year 2011, or an average of \$809 per worker (Table 4).
  - The total dollar value of the tax credits that could help Hispanic workers employed by eligible small businesses is nearly \$3.2 billion for tax year 2011, or an average of \$769 per worker (Table 5).
  - The total dollar value of the tax credits that could help black, non-Hispanic workers employed by eligible small businesses is more than \$1.3 billion for tax year 2011, or an average of \$811 per worker (Table 6).



Table 4.

### White, Non-Hispanic Workers Employed by Small Businesses Eligible for Health Care Tax Credits, 2011

State	Total Number Employed by Small Businesses	White, Non-Hispanic Workers Employed by Small Businesses Eligible for Credits			
		Number	Percent	Total Dollar Value of Credit	Average Credit Per Worker
Alabama	318,480	199,130	62.5%	\$163,385,200	\$820
Alaska	51,920	32,570	62.7%	\$26,631,600	\$818
Arizona	362,440	216,370	59.7%	\$154,364,000	\$713
Arkansas	231,450	156,540	67.6%	\$106,302,600	\$679
California	1,633,210	928,690	56.9%	\$703,517,000	\$758
Colorado	389,240	230,820	59.3%	\$183,878,300	\$797
Connecticut	252,820	143,050	56.6%	\$123,664,500	\$864
Delaware	59,220	35,270	59.6%	\$28,913,800	\$820
District of Columbia	20,810	10,070	48.4%	\$7,257,700	\$721
Florida	1,351,760	839,780	62.1%	\$653,102,800	\$778
Georgia	600,170	371,610	61.9%	\$288,951,700	\$778
Hawaii	41,940	23,230	55.4%	\$19,636,100	\$845
Idaho	147,190	95,350	64.8%	\$70,563,900	\$740
Illinois	842,500	504,670	59.9%	\$424,718,100	\$842
Indiana	511,920	322,950	63.1%	\$276,704,800	\$857
Iowa	262,930	168,820	64.2%	\$125,923,700	\$746
Kansas	224,870	141,690	63.0%	\$103,587,100	\$731
Kentucky	349,180	223,970	64.1%	\$179,915,900	\$803
Louisiana	309,520	194,620	62.9%	\$183,651,700	\$944
Maine	129,540	84,640	65.3%	\$76,244,300	\$901
Maryland	338,750	192,480	56.8%	\$163,646,500	\$850
Massachusetts	510,500	284,690	55.8%	\$282,576,900	\$993
Michigan	783,270	476,860	60.9%	\$426,248,800	\$894
Minnesota	486,540	300,570	61.8%	\$237,114,900	\$789
Mississippi	174,640	117,080	67.0%	\$86,507,700	\$739
Missouri	512,150	329,120	64.3%	\$256,338,400	\$779
Montana	108,710	72,190	66.4%	\$54,818,800	\$759
Nebraska	152,640	97,180	63.7%	\$73,920,200	\$761
Nevada	130,810	77,810	59.5%	\$58,169,500	\$748
New Hampshire	139,680	81,900	58.6%	\$75,014,600	\$916
New Jersey	558,860	311,860	55.8%	\$278,035,600	\$892
New Mexico	85,350	52,010	60.9%	\$43,676,600	\$840
New York	1,293,370	768,860	59.4%	\$674,321,200	\$877
North Carolina	674,880	428,630	63.5%	\$332,255,800	\$775
North Dakota	62,470	39,850	63.8%	\$28,595,400	\$718
Ohio	885,400	550,760	62.2%	\$419,560,100	\$762
Oklahoma	244,920	158,480	64.7%	\$119,768,500	\$756
Oregon	346,280	216,200	62.4%	\$166,964,300	\$772
Pennsylvania	994,360	602,450	60.6%	\$518,429,100	\$861
Rhode Island	86,690	51,310	59.2%	\$44,933,800	\$876
South Carolina	332,960	217,030	65.2%	\$174,147,200	\$802
South Dakota	82,600	53,990	65.4%	\$42,020,600	\$778
Tennessee	444,010	287,380	64.7%	\$208,666,500	\$726
Texas	958,320	591,140	61.7%	\$451,963,600	\$765
Utah	214,800	134,150	62.5%	\$103,906,400	\$775
Vermont	71,910	45,470	63.2%	\$43,956,700	\$967
Virginia	550,910	332,520	60.4%	\$260,152,000	\$782
Washington	509,720	297,560	58.4%	\$224,433,300	\$754
West Virginia	131,100	87,260	66.6%	\$77,107,300	\$884
Wisconsin	488,560	308,370	63.1%	\$274,570,300	\$890
Wyoming	57,430	38,230	66.6%	\$35,626,300	\$932
<b>United States</b>	<b>20,503,690</b>	<b>12,527,230</b>	<b>61.1%</b>	<b>\$10,138,361,600</b>	<b>\$809</b>

Source: Estimates developed by The Lewin Group for Families USA and Small Business Majority. For more details, see the Methodology on page 19.

Table 5.

## Hispanic Workers Employed by Small Businesses Eligible for Health Care Tax Credits, 2011

State	Total Number Employed by Small Businesses	Hispanic Workers Employed by Small Businesses Eligible for Credits			
		Number	Percent	Total Dollar Value of Credit	Average Credit Per Worker
Alabama	15,060	11,600	77.0%	\$9,163,400	\$790
Alaska	3,680	2,850	77.5%	\$2,258,800	\$792
Arizona	225,670	172,650	76.5%	\$124,815,600	\$723
Arkansas	17,090	13,910	81.4%	\$9,162,400	\$659
California	1,582,230	1,160,750	73.4%	\$869,847,800	\$749
Colorado	114,410	85,430	74.7%	\$66,200,800	\$775
Connecticut	41,010	29,290	71.4%	\$24,772,500	\$846
Delaware	6,220	4,520	72.6%	\$3,598,000	\$796
District of Columbia	6,550	4,200	64.1%	\$3,023,900	\$720
Florida	542,950	411,740	75.8%	\$306,438,200	\$744
Georgia	96,330	74,920	77.8%	\$56,796,400	\$758
Hawaii	9,670	6,160	63.7%	\$5,081,200	\$824
Idaho	18,810	14,740	78.4%	\$10,428,800	\$708
Illinois	188,090	140,040	74.5%	\$115,090,500	\$822
Indiana	32,870	25,530	77.7%	\$21,317,000	\$835
Iowa	17,550	13,660	77.8%	\$9,983,500	\$731
Kansas	24,080	18,590	77.2%	\$13,304,900	\$716
Kentucky	11,120	8,670	78.0%	\$6,668,700	\$769
Louisiana	17,700	13,930	78.7%	\$12,570,700	\$902
Maine	1,860	1,460	78.1%	\$1,274,500	\$876
Maryland	53,370	38,570	72.3%	\$32,329,800	\$838
Massachusetts	50,360	35,460	70.4%	\$35,200,900	\$993
Michigan	37,520	28,160	75.0%	\$24,362,700	\$865
Minnesota	23,800	18,120	76.1%	\$13,916,700	\$768
Mississippi	8,430	6,880	81.5%	\$4,968,800	\$723
Missouri	20,720	16,510	79.7%	\$12,257,100	\$742
Montana	3,390	2,690	79.3%	\$1,949,700	\$726
Nebraska	16,920	13,050	77.1%	\$9,564,400	\$733
Nevada	57,720	42,190	73.1%	\$29,865,900	\$708
New Hampshire	3,440	2,500	72.7%	\$2,177,000	\$871
New Jersey	190,570	137,860	72.3%	\$119,230,700	\$865
New Mexico	91,450	69,170	75.6%	\$55,511,900	\$803
New York	395,130	295,300	74.7%	\$256,056,300	\$867
North Carolina	76,900	60,100	78.2%	\$44,869,100	\$747
North Dakota	1,060	810	76.8%	\$548,000	\$676
Ohio	28,660	21,790	76.0%	\$16,230,000	\$745
Oklahoma	29,610	23,390	79.0%	\$16,631,500	\$711
Oregon	48,640	37,480	77.1%	\$27,628,100	\$737
Pennsylvania	64,030	47,510	74.2%	\$39,517,700	\$832
Rhode Island	12,600	9,250	73.4%	\$7,865,200	\$850
South Carolina	15,550	12,300	79.1%	\$9,701,500	\$788
South Dakota	2,360	1,850	78.2%	\$1,387,400	\$751
Tennessee	26,210	20,580	78.5%	\$14,592,300	\$709
Texas	1,068,840	827,220	77.4%	\$615,391,700	\$744
Utah	30,430	23,250	76.4%	\$17,226,300	\$741
Vermont	950	730	77.3%	\$692,000	\$943
Virginia	61,780	46,820	75.8%	\$35,383,000	\$756
Washington	61,900	45,810	74.0%	\$33,753,100	\$737
West Virginia	1,910	1,520	79.7%	\$1,264,300	\$830
Wisconsin	36,120	27,410	75.9%	\$23,968,700	\$875
Wyoming	6,310	5,060	80.2%	\$4,452,200	\$880
<b>United States</b>	<b>5,499,630</b>	<b>4,133,950</b>	<b>75.2%</b>	<b>\$3,180,291,900</b>	<b>\$769</b>

Source: Estimates developed by The Lewin Group for Families USA and Small Business Majority. For more details, see the Methodology on page 19.

Table 6.

**Black, Non-Hispanic Workers Employed by Small Businesses Eligible for Health Care Tax Credits, 2011**

State	Total Number Employed by Small Businesses	Black, Non-Hispanic Workers Employed by Small Businesses Eligible for Credits			
		Number	Percent	Total Dollar Value of Credit	Average Credit Per Worker
Alabama	72,110	48,630	67.4%	\$40,673,800	\$836
Alaska	2,020	1,340	66.2%	\$1,047,800	\$783
Arizona	14,960	9,980	66.7%	\$7,378,200	\$739
Arkansas	29,740	21,030	70.7%	\$14,067,200	\$669
California	155,420	100,120	64.4%	\$75,694,100	\$756
Colorado	14,510	9,360	64.5%	\$7,346,700	\$785
Connecticut	20,810	12,930	62.1%	\$11,593,600	\$897
Delaware	11,120	7,140	64.2%	\$5,890,300	\$825
District of Columbia	21,610	12,810	59.3%	\$9,742,600	\$760
Florida	208,470	141,270	67.8%	\$106,871,900	\$757
Georgia	198,570	134,540	67.8%	\$102,193,800	\$760
Hawaii	2,380	1,460	61.2%	\$1,203,000	\$827
Idaho	660	440	67.0%	\$324,600	\$734
Illinois	118,310	78,170	66.1%	\$66,587,100	\$852
Indiana	31,470	21,330	67.8%	\$18,940,200	\$888
Iowa	4,710	3,220	68.3%	\$2,437,400	\$758
Kansas	10,870	7,320	67.3%	\$5,384,200	\$736
Kentucky	17,050	11,600	68.1%	\$9,337,000	\$805
Louisiana	95,880	64,980	67.8%	\$59,107,600	\$910
Maine	800	560	69.8%	\$509,600	\$918
Maryland	119,260	75,480	63.3%	\$63,924,400	\$847
Massachusetts	24,570	15,420	62.7%	\$16,216,800	\$1,052
Michigan	86,380	56,690	65.6%	\$53,681,700	\$947
Minnesota	16,020	10,630	66.3%	\$8,596,500	\$809
Mississippi	66,910	46,720	69.8%	\$33,760,800	\$723
Missouri	45,390	31,180	68.7%	\$24,070,600	\$772
Montana	480	330	68.7%	\$244,100	\$744
Nebraska	5,160	3,480	67.5%	\$2,635,800	\$757
Nevada	11,500	7,410	64.5%	\$5,512,400	\$744
New Hampshire	1,010	630	62.2%	\$587,100	\$937
New Jersey	83,300	52,100	62.5%	\$47,232,500	\$907
New Mexico	2,450	1,640	66.7%	\$1,351,200	\$825
New York	207,540	139,900	67.4%	\$126,097,000	\$901
North Carolina	138,000	93,440	67.7%	\$72,795,900	\$779
North Dakota	420	280	67.0%	\$198,400	\$706
Ohio	75,280	50,200	66.7%	\$39,556,600	\$788
Oklahoma	16,560	11,340	68.5%	\$8,265,800	\$729
Oregon	5,090	3,370	66.2%	\$2,612,800	\$775
Pennsylvania	72,420	47,410	65.5%	\$41,509,500	\$875
Rhode Island	3,600	2,300	64.1%	\$2,115,400	\$918
South Carolina	84,450	57,570	68.2%	\$47,090,200	\$818
South Dakota	690	480	69.0%	\$368,700	\$770
Tennessee	56,480	39,220	69.4%	\$28,771,600	\$734
Texas	163,420	110,210	67.4%	\$82,327,200	\$747
Utah	1,630	1,060	65.1%	\$831,000	\$782
Vermont	410	280	67.4%	\$280,300	\$1,008
Virginia	105,680	68,780	65.1%	\$52,581,100	\$764
Washington	16,110	10,420	64.7%	\$7,941,800	\$762
West Virginia	2,770	1,930	69.6%	\$1,650,300	\$855
Wisconsin	20,760	13,890	66.9%	\$12,839,100	\$924
Wyoming	430	300	68.6%	\$255,200	\$857
<b>United States</b>	<b>2,465,630</b>	<b>1,642,280</b>	<b>66.6%</b>	<b>\$1,332,232,300</b>	<b>\$811</b>

Source: Estimates developed by The Lewin Group for Families USA and Small Business Majority. For more details, see the Methodology on page 19.

## Discussion

### Small Businesses Are Less Likely to Offer Coverage

In 2011, only 71 percent of small businesses with 10 to 24 workers offered coverage to their workers. Among small businesses with fewer than 10 workers, only 48 percent offered coverage. By contrast, 99 percent of businesses with 200 or more workers offered coverage.<sup>1</sup>

Among small businesses with low-wage workers, the likelihood that such businesses offer coverage to their workers is even lower. As a result, lower-wage workers who are employed by small businesses are much more likely to be uninsured than other working Americans.<sup>2</sup>

### Why Small Businesses Struggle to Offer Coverage

The primary reason that small business owners do not offer health coverage to their workers is cost. Insurance premiums for small businesses are often significantly higher than those for larger businesses. The cost of health insurance for small business has historically been driven up by higher administrative expenses and premiums per employee in the small group insurance market.<sup>3</sup> In addition, until the Affordable Care Act was passed, most states did not do much to limit premium increases or require that a reasonable percentage of the premiums that insurers collected be used to pay for health care rather than high salaries, excessive profits, and administration. Moreover, most states currently allow insurers to charge a small business even more if its workforce is sicker, older, or has a higher percentage of women.<sup>4</sup> And while the premiums that small businesses pay are often higher, the coverage they receive typically requires more cost-sharing and includes fewer benefits than the coverage larger companies can provide at a lower price.<sup>5</sup>

In addition, many small business owners find the process of comparing insurance plans and selecting a benefit package that provides good value to be time-consuming and complicated. And small business owners who do offer coverage are often concerned that they will not be able to predict or afford the increases in premiums they could face if even one worker develops a health problem.

The lack of predictability in insurance premium increases in the small group market has historically been due to two key factors: the changing health status of workers and lack of regulation of premium increases in the small group insurance market.

The small business health care tax credit, the focus of this analysis, helps address this lack of predictability, which can leave small businesses facing large premium increases from one year to the next. By reimbursing a substantial share of a small business's health insurance costs, the impact of any premium increase will be softened. In addition, as described below, the new state insurance marketplaces for small business, the SHOP exchanges, will help slow premium increases and prevent high rate hikes from year to year.

## How the New Small Business Health Care Tax Credit Works

Under the Affordable Care Act, many small employers are now eligible to receive a tax credit to pay for up to 35 percent of the average cost of a small group health insurance plan in their state (or a 25 percent refund for nonprofits).<sup>6</sup> Congress designed this credit with the intent of providing the greatest help to those businesses and workers who are most in need—the smallest employers who face the highest premiums and are the least able to offer coverage to their workers. As such, small businesses with fewer than 25 full-time workers (or the equivalent) and average wages of less than \$50,000 are now eligible to receive a credit, but the smallest firms with the lowest wages—those that employ 10 or fewer workers who earn an average wage of less than \$25,000—are eligible for the greatest help and receive the full 35 percent tax credit (or a 25 percent refund for nonprofits). From there, the size of the credit phases out on a sliding scale.

To qualify for the tax credit, small businesses must cover at least 50 percent of each employee's health insurance premiums. Small businesses that employ part-time workers are also eligible for help, and their credits are calculated by determining the number of "full-time equivalents" that they employ. For example, two half-time workers count as one full-time worker for the purposes of calculating tax credit eligibility. In addition, small businesses are eligible for the tax credit even if they already receive assistance from their state to help them buy coverage for their workers, and they can continue to deduct the remainder of their health care costs when they file their federal income taxes.

In 2014, once the state health insurance exchanges are up and running, small businesses will be eligible for tax credits of up to 50 percent of the cost of covering their workers through the exchanges (or a 35 percent refund for nonprofits).

While the Affordable Care Act created this new tax credit to help small business owners and workers, it does not force these small business owners to provide coverage for their workers. There are no employer mandates in the law, and there are no employer responsibility requirements at all for businesses with fewer than 50 workers, which account for 96 percent of all firms in the United States.<sup>7</sup> Starting in 2014, businesses with 50 or more workers that do not offer coverage or that offer only unaffordable coverage to their workers will be assessed a fee if one or more of their workers receives a federal individual premium tax credit to purchase coverage in an exchange.

## Looking Forward:

### Increasing the Number of Small Businesses Participating in the Small Business Health Care Tax Credit

The White House estimates that at least 360,000 small businesses will take advantage of the small business health care tax credit in 2011. These small businesses provide health insurance to an estimated 2 million workers.<sup>8</sup> These estimates are likely on the low end because they do not take into account three timing issues: 1) Many small business owners request an extension and will not file tax year 2011 returns until September or October of 2012; 2) qualifying small businesses that do not take the tax credit in 2011 can claim it by filing an amended return within three years; and 3) a small business that qualifies for the credit in 2011 but does not owe taxes for that year can instead apply the value of the credit to the previous year's tax liability or to taxes owed in any of the next 20 years.

Despite these caveats, these estimates do indicate that a large number of small businesses that employ many workers are already being helped. However, they also clearly show that more outreach and education about the new small business health care tax credit is needed.

There are four key reasons why more small businesses will use the small business health care tax credit in the future: 1) More small business owners will know about the tax credit, 2) accounting software packages will have integrated information about the small business health care tax credit into their products, 3) the size of the tax credit will be larger beginning in 2014, and 4) small businesses will have the advantage of purchasing coverage in new state small business health insurance exchanges beginning in 2014. We discuss each of these reasons in more detail below.

#### **1. Over time, more small businesses will learn about this new tax credit.**

A survey of small businesses conducted in November 2010 shows that the initial educational challenge has been significant. The survey found that only 43 percent of small business owners were aware of the tax credits. However, when informed about the credit, 31 percent of small business owners (and 40 percent of owners of the smallest businesses—those with three-nine employees) who offered insurance said the tax credits would make them more likely to continue providing insurance. Among small business owners who didn't offer health insurance, 33 percent said they would be more likely to do so because of the tax credits.<sup>9</sup>

A more recent survey conducted between January and May of 2011 shows that more needs to be done to educate small business owners about the tax credit. This survey looked at small businesses with fewer than 50 workers—both those that offered and those that did not offer health coverage.<sup>10</sup> Among businesses that offered health coverage, only 29 percent said they had attempted to determine if they were eligible for the new tax credit. Among small businesses that did not offer health insurance, the survey found that only half of the businesses said they were even aware of the credit.<sup>11</sup> A similar survey of small businesses in California conducted between July and October 2011 found that just 21 percent of small businesses with fewer than 50 workers that offered health coverage attempted to determine whether they would be eligible for the tax credit (of those that did explore eligibility, 46 percent planned to take advantage of the credit). Among California small businesses that were not offering health insurance, only 32 percent were aware that the tax credit existed.<sup>12</sup> Finally, a September 2011 report issued by the Treasury Inspector General for Tax Administration concluded that “more needs to be done to ensure that taxpayers are aware of the Credit and to improve accuracy in Credit claims.”<sup>13</sup>

**2. Accounting software packages will have integrated information about the small business health care tax credit into their products.**

One stumbling block to implementation of the small business health care tax credit is the initial lack of integration of the tax credit into accounting software packages that are used by small business owners, certified public accountants, and tax preparers. Moving forward, these software packages will automatically “tee-up” information about the new tax credits.

**3. More small businesses will apply for the tax credit in 2014 because the size of the tax break will be larger.**

The tax credit will grow until it reimburses businesses for up to 50 percent of the cost of health insurance provided to workers. Cost is the key factor that drives decisions by small business owners to offer coverage to their workers. A larger credit will induce more owners to offer or continue offering health coverage to their workers. (President Obama has also proposed additional improvements to the tax credit that would increase the size of the tax credit and simplify how it is calculated. See “President Obama Calls for Expanding the Small Business Health Care Tax Credit” on page 14.)



## President Obama Calls for Expanding the Small Business Health Care Tax Credit

In his fiscal year 2013 budget, President Obama proposed expanding the small business health care tax credit. Under the proposal, small businesses with up to 50 workers could qualify for the tax credit. The proposal also includes a new methodology for calculating the sliding scale size of the tax credit, which would allow many small businesses to qualify for a larger credit. In addition, the proposal expands and simplifies the credit by eliminating the current cap that limits the size of the credit to the average premium in the state.

The White House estimates that an additional 2 million workers would benefit from this expansion of the current small business health care tax credit.<sup>a</sup> For example, a small

business with 15 full-time employees with average wages of \$35,000 per employee and that makes a premium contribution of \$6,000 per employee would be eligible for an \$8,400 tax credit under current law. Under the President's budget proposal, that tax credit would increase to \$18,900 in 2012 and \$27,000 in 2014.

A small business that has 30 full-time employees is not currently eligible for a small business health care tax credit. Under the President's proposal, a small business with 30 employees with average wages of \$25,000 and an employer premium contribution of \$5,000 per employee, for example, would be eligible for a \$35,000 tax credit in 2012 and a \$50,000 tax credit in 2014.

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<sup>a</sup> *President Obama's Budget Expands, Simplifies Small Business Health Care Tax Credits* (Washington: The White House Office of the Press Secretary, February 16, 2012), available online at <http://www.whitehouse.gov/the-press-office/2012/02/16/fact-sheet-president-obama-s-budget-expands-simplifies-small-business-he>.



**4. In 2014, small businesses that are eligible for the tax credit will find it easier and more affordable to purchase coverage for their workers through the new state insurance exchanges called Small Business Health Options Programs (SHOPs).**

These new marketplaces for insurance will be open to small businesses with up to 50 employees in the first two years and can then be expanded to businesses with up to 100 employees. In the exchanges, small employers will be able to compare easily understandable information on benefits and costs for a range of insurance plans so that they can find the policies that best meet the needs of their workers. This simplified system of shopping for and enrolling in health coverage will ease administrative burdens on small employers, who may have limited staff and time for searching for health coverage.

In addition, the SHOP exchanges will provide more coverage options with more affordable premiums and more predictable rate increases. Insurance plans that impose unreasonable rate hikes before 2014 may not be permitted to sell coverage through the exchanges. Starting in 2014, insurers will be prohibited from charging small businesses higher rates if their workers have pre-existing conditions. All premiums will be reviewed, and insurance companies will not be allowed to “pad” their premiums. And under the health care law, health plans for small businesses are required to spend at least 80 percent of the premium dollars that they collect on providing medical care and improving health care quality for enrollees. This will reduce the growth in premiums and provide more year-to-year stability and predictability in health insurance costs for small businesses and their workers.

### Federal Programs Often Start Slow but Build over Time

Participation in new federal programs is frequently low in the early years but increases over time, particularly when the federal government and outside organizations undertake vigorous outreach efforts to educate those who are eligible for the new benefit. For example, nine years after they were created, the Medicare Savings Programs served fewer than half of the low-income seniors who were eligible to receive this new help with out-of-pocket Medicare costs.<sup>a</sup>

The Children's Health Insurance Program, or CHIP, offers another example. Five years after it began, CHIP had enrolled roughly 3.5 million children—about half of those who were eligible for coverage.<sup>b</sup> Experience with these programs and others, notably the Earned Income Tax Credit, has demonstrated that the passage of time, aided by outreach efforts, can lead to steady growth in participation.

<sup>a</sup> Families USA, *Shortchanged: Billions Withheld from Medicare Beneficiaries* (Washington: Families USA, 1998).

<sup>b</sup> Rachel Klein, *Children Losing Health Coverage* (Washington: Families USA, September 2002).

### Addressing Health Care Disparities among Small Business Workers

The small business health care tax credit is an important tool that can be used to address the racial and ethnic disparities in access to coverage that exist among small business workers in our country. The rates of uninsurance among Hispanic and black workers are higher than the rate for white workers. According to the Kaiser Family Foundation (looking at smaller employers with fewer than 100 workers), 57 percent of Hispanic workers under the age of 65 (3.6 million) are uninsured, and 40 percent (1 million) of black workers are uninsured, compared to 24 percent of white, non-Hispanic workers.<sup>14</sup>

Many of these uninsured workers could benefit from the small business health care tax credit. As our findings show, more than 4.1 million Hispanic and more than 1.6 million black employees work for small businesses that could qualify for this tax credit for the 2011 tax year. The potential total value of the benefit that could accrue to these workers is \$3.2 billion and \$1.3 billion, respectively (see Tables 5 and 6 on pages 8 and 9).

It is especially important that small businesses that employ Hispanic workers be educated about this new tax credit. Past focus group research has shown that Hispanic workers value health insurance, but uninsured Hispanic workers report that they didn't buy coverage because they were struggling financially and had to pay for other basics like food and rent first.<sup>15</sup> Not only is a greater share of Hispanic workers employed by small businesses than white, non-Hispanic or black, non-Hispanic workers, but Hispanic workers are also more likely to have lower wages than black or white workers.<sup>16</sup> In 2014, when the maximum tax credit increases to 50 percent of the cost of coverage, more eligible small businesses with Hispanic workers may be able to offer coverage. But first, these small businesses must know that the tax credit is available to them.

## Conclusion

Americans depend on Main Street USA: the local diner, the family-owned hardware store, the trusted auto mechanic, and others that we rely on every day. To help these businesses and their workers prosper, the business community, the government, and the public will have to reach out together and make sure that the small business community learns about the new health care tax credit. As this analysis shows, millions of small business workers across America stand to benefit from the new small business health care tax credits in the Affordable Care Act.



## Endnotes

- <sup>1</sup> Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2011 Annual Survey* (Washington: Kaiser Family Foundation, 2011).
- <sup>2</sup> Quantria Strategies, LLC, *Health Insurance in the Small Business Market: Availability, Coverage, and the Effect of Tax Incentives* (Washington: Small Business Administration, Office of Advocacy, September 2011); Paul Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2011 Current Population Survey* (Washington: Employee Benefit Research Institute, September 2011); Michelle M. Doty, Sara R. Collins, Sheila D. Rustgi, and Jennifer L. Nicholson, *Out of Options: Why So Many Workers in Small Businesses Lack Affordable Health Insurance, and How Health Care Reform Can Help* (New York: The Commonwealth Fund, September 2009).
- <sup>3</sup> Paul Fronstin, op. cit.
- <sup>4</sup> Sara R. Collins, Karen Davis, Jennifer L. Nicholson, and Kristof Stremikis, *Realizing Health Reform's Potential: Small Businesses and the Affordable Care Act of 2010* (New York: The Commonwealth Fund, September 2010).
- <sup>5</sup> Kaiser Family Foundation and Health Research and Educational Trust, op. cit.; Quantria Strategies, LLC, op. cit.; Michelle M. Doty, Sara R. Collins, Sheila D. Rustgi and Jennifer L. Nicholson, op. cit.
- <sup>6</sup> The credit also covers the cost of premiums for dental, vision, and long-term care plans.
- <sup>7</sup> Small Business Administration, Office of Advocacy, *Employer Firms, Establishments, Employment, and Annual Payroll Small Firm Size Classes, 2006*, based on data provided by the U.S. Census Bureau, Statistics of U.S. Businesses, available online at [http://www.sba.gov/advo/research/us\\_06ss.pdf](http://www.sba.gov/advo/research/us_06ss.pdf).
- <sup>8</sup> *President Obama's Budget Expands, Simplifies Small Business Health Care Tax Credits* (Washington: The White House Office of the Press Secretary, February 16, 2012), available online at <http://www.whitehouse.gov/the-press-office/2012/02/16/fact-sheet-president-obama-s-budget-expands-simplifies-small-business-he>.
- <sup>9</sup> Small Business Majority, *Opinion Survey: Small Business Owners' Views on Key Provisions of the Patient Protection and Affordable Care Act* (Washington: Small Business Majority, January, 2011), available online at <http://smallbusinessmajority.org/small-business-research/healthcare/small-business-healthcare-survey.php>.
- <sup>10</sup> This survey looked at small businesses with fewer than 50 employees in order to capture some small business with more than 25 employees who would nonetheless be eligible for the tax credit because the new law is based on full-time equivalent employees and the survey counts all employees, including part-time employees. However, this also means that some small businesses that are unlikely to be eligible for the tax credit (because they have more than 25 full-time equivalent employees) were asked the questions.
- <sup>11</sup> Kaiser Family Foundation and Health Research and Educational Trust, op. cit.
- <sup>12</sup> California HealthCare Foundation and NORC at the University of Chicago, *California Health Care Almanac, California Employer Health Benefits Survey* (Oakland, CA: California HealthCare Foundation, December 2011), available online at <http://www.chcf.org/~media/MEDIA%20LIBRARY%20Files/PDF/E/PDF%20EmployerBenefitsSurvey2011.pdf>.
- <sup>13</sup> Treasury Inspector General for Tax Administration, *Affordable Care Act: Efforts to Implement the Small Business Health Care Tax Credit Were Mostly Successful, but Some Improvements Are Needed* (Washington: Department of the Treasury, September 19, 2011), available online at <http://www.treasury.gov/tigta/auditreports/2011reports/201140103fr.pdf>.
- <sup>14</sup> Kaiser Family Foundation, *Health Reform and Communities of Color: Implications for Racial and Ethnic Health Disparities* (Menlo Park, CA: Kaiser Family Foundation, September 2010).
- <sup>15</sup> Michael Perry, Susan Kannel, and Enrique Castillo, *Barriers to Health Coverage for Hispanic Workers: Focus Group Findings* (New York: The Commonwealth Fund, December 2000).
- <sup>16</sup> Catherine Singley, *Fractures in the Foundation: The Latino Worker's Experience in an Era of Declining Job Quality* (Washington: National Council of La Raza, 2009).

## Methodology

For this study, Families USA and the Small Business Majority commissioned The Lewin Group to estimate the number of firms that are eligible for the small business health care tax credit under the Affordable Care Act in tax year 2011. We also asked The Lewin Group to estimate the number of workers that are employed by small businesses that are eligible for these tax credits and to provide demographic information about these workers.

The small business health care tax credit is worth up to 35 percent of a small business's premium costs in 2011 (or a 25 percent refund for tax-exempt employers). In 2014, this rate will increase to 50 percent (or a 35 percent refund for tax-exempt employers). The *maximum* credit is available to smaller businesses with 10 or fewer full-time equivalent (FTE) workers and annual average wages per FTE worker of \$25,000 or less. The credit phases out on a sliding scale for firms with average wages between \$25,000 and \$50,000 and for firms with between 10 and 25 FTE workers. In order to claim the credit, eligible firms must offer coverage and pay for at least 50 percent of each employee's premium.

In 2011, the maximum value of the tax credit is equal to 35 percent of the employer's share of premiums for the average small group plan within the state. Firms with 10 or fewer FTE workers and average wages per FTE worker below \$25,000 qualify for this maximum credit. The tax credit is phased out if the number of FTEs exceeds 10 or the average wage per FTE exceeds \$25,000. The phase out formula is  $(\text{FTEs} - 10) / 15 + (\text{average salary per FTE} - \$25,000) / \$25,000$ . For example, a firm with 15 FTEs and average wages per FTE of \$30,000 would have its credit reduced by  $(15 - 10) / 15 = 0.333 + (\$30,000 - \$25,000) / \$25,000 = 0.2 = 0.533$ .

The Lewin Group used their widely respected Health Benefits Simulation Model (HBSM) for this analysis. The HBSM includes a "synthetic firm" module, which is a database of employers and workers. These data provide information about an employer's size, industry, and whether it offers coverage today. The synthetic firms also include information on each worker's wage level, demographic characteristics, full-time/part-time status, single/family coverage, and health spending. The synthetic firms were created using a statistical match of Medical Expenditure Panel Survey (MEPS) workers to the 1997 Robert Wood Johnson Foundation employer survey (RWJF) and the 2006 Kaiser Family Foundation and Health Research and Educational Trust (HRET) employer survey. (The RWJF data are used because they contain information on the distribution of workers in firms by wage level, age, sex, hours worked per week, and single/family coverage.)

The HBSM constructs synthetic firms for each worker in the MEPS data by statistically matching the worker to a firm in the RWJF data. The Lewin Group also supplements the older RWJF data with more current data from the HRET data for health plan benefits and employer contribution levels. The Lewin Group builds a synthetic firm for each MEPS worker (called the “primary worker”) by assigning other workers in MEPS to the RWJF-HRET firms so that the final synthetic firm matches the overall profile of the firm’s workers by wage level, age, sex, hours worked per week, and single/family coverage.

The data on wages and hours worked for each of the MEPS workers in the synthetic firm provide the information necessary to construct the number of FTEs and average wage per FTE that are used to determine eligibility for the small business health care tax credit. The Lewin Group estimated FTEs by adding up the number of hours worked per week for each worker (with a maximum of 40 hours) and dividing that total by 40 hours. For example, if there were 10 workers in a firm who all worked 30 hours per week, the number of FTEs was calculated as  $30 \times 10 / 40 = 7.5$ . Average wage per FTE was calculated by adding up the wages for all workers in the synthetic firm and dividing that total by the number of FTEs. In the above example, if the average wage per employee was \$20,000, total payroll would be  $\$20,000 \times 10 = \$200,000$ . The average wage per FTE would be calculated as  $\$200,000 / 7.5 = \$26,667$ .

The demographic characteristics and health spending data for each MEPS worker and his or her dependents are used to estimate premiums for the synthetic firm, and data from the HRET provide information on employer contributions to premiums. The Lewin Group modeled 2011 premiums for these synthetic firms based on current small group rating rules in each state (community rating, age rating, or rating bands), reported health expenditures, and the distribution of single and family coverage for the workers assigned to each plan and the actuarial value of the employer’s plan. The data also include information on the share of the premium paid by the employer for those that offer coverage. This information was used to estimate the amount of the tax credit for eligible firms offering coverage in 2011. For firms that do not currently offer coverage, The Lewin Group assumed that these small businesses would offer a plan with an actuarial value of 70 percent and that the employer would contribute only 50 percent of the premium, which is the minimum amount required to qualify for the tax credit.

The amount of the employer premium that would be eligible for the credit is capped so as not to exceed the average premium for the small group market in the state. The Lewin Group used their synthetic firm model to estimate the average premium for all firms with fewer than 50 workers, which is the typical definition of small groups, and capped total premiums to not exceed that amount for each employer.

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