THE "HEALTH INSURANCE FEE:"
A TAX ON SMALL BUSINESSES AND THE SELF-EMPLOYED

Small business has consistently said that controlling the increasing costs of health insurance premiums is their No.1 concern. The health insurance tax included in the Patient Protection and Affordable Care Act raises small business health insurance premiums.

How does the tax work?

Messaged as a "health insurance fee," this tax is actually a direct tax on small business.
The new healthcare law assesses a tax on all health insurance companies based on their "net premiums" written. The tax will raise $8 billion starting in 2013 and $14.3 billion in 2018 and later years. The amount of the tax that the insurance company is responsible for is equal to the percent of the market that the insurance company covers. The larger the insurance companies market-share, the higher their annual health insurance tax. One thing insurers made clear throughout the healthcare debate: new taxes on them mean new costs passed along to customers. The group that experiences the most cost-shifting is the fully-insured market.

How does this new tax increase the cost for small business?

1. A health insurance company is defined to *specifically exclude* employers that self-insure. Most small business owners do not self-insure because they do not have a large enough pool of employees. Instead, small employers purchase health insurance in the fully-insured market. Because the self-insured plans are exempted from the tax for purposes of determining the insurance company's portion of the fees, the only insurance plans that factor into the equation are fully-insured plans – the plans that 87 percent of small business owners purchase.

2. While the fees are assessed on the insurance company, those companies have two choices: either eat the costs or pass the costs on to their customers. Because this fee will eat into the bottom line of the company, they will certainly pass these costs along to their customers. A recent CBO report confirms that the small business insurance tax "would be largely passed through to consumers in the form of higher premiums for private coverage." And a study by the Federal Policy Group found that the amount of taxes passed on to the typical family of four in their health insurance premiums could be as much as $500 per year.