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Sorting Fact from Fiction on Health-Care Reform

While much of the health-care overhaul won't take effect for years, business owners have concerns about the new rules. Here are four of their biggest issues

By [Karen E. Klein](#)

Since the U.S. [health-care overhaul became law in March](#), small business owners have wondered how it will affect them. A new [website](#), sponsored by the U.S. Department of Health and Human Services [aims to answer some of those questions](#).

Many myths and misconceptions have surfaced, says Michael T. Hanley, managing partner at small business-focused accounting firm [Merl & Hanley](#) in Smithtown, N.Y.

Michael Alter, president and chief executive officer of [SurePayroll](#), an online payroll-processing firm based in Glenview, Ill., agrees. His small business clients have expressed "a tremendous amount of confusion and concern" over health-care overhaul, Alter says. Here's an attempt to clear up some of the areas that have sparked worry.

Concern: Small businesses will be fined if they don't provide medical insurance.

Reality: Not true, if you have fewer than 50 full-time employees. True, for companies employing 50 or more full-time workers. (Part-time employees' annual hours are calculated, so that 100 half-time employees equal 50 full-timers.)

Caveats: Business owners with 50 employees need not panic just yet. This provision of the law doesn't go into full effect until 2014. "A new Presidential administration may be in place and may look to reverse this facet—or many facets—of the plan," Hanley points out.

More than 95 percent of companies with 50 or more employees currently offer coverage, according to the HHS [website](#). In 2014, those who don't offer it, and have at least one full-time employee who receives a premium tax credit (which will be offered to low-income individuals) to buy coverage on his own, will be fined \$2,000 per full-time employee, excluding the first 30 employees. Companies that offer coverage but have at least one full-time employee receiving a premium tax credit (presumably because company coverage is too expensive) will pay the lesser of \$3,000 for each employee receiving a premium credit or \$2,000 for each full-time employee, again excluding the first 30 employees.

Concern: Small companies will get tax credits to provide insurance.

Reality: True for mom-and-pop shops, which are currently the least likely to offer coverage. Not true if you have more than 25 full-time employees (50 part-time) or pay average annual salaries of more than \$50,000 per employee.

Caveats: The full credit, which starts at 35 percent this year, and jumps to 50 percent in 2014, is given to companies with fewer than 10 full-time workers and average salaries under \$25,000. Employers must pay at least half the cost of the insurance provided. "If you pay \$10,000 in premiums, you'd get a \$3,500 tax credit," Hanley says.

The credit gets reduced gradually for companies that have 10 to 25 full-time employees with average salaries between \$25,000 and \$50,000. It phases out entirely for companies with 25 full-timers. Companies with 25 to 50 full-time employees fall into a kind of limbo: You won't get a tax credit if you offer insurance, but you won't be penalized for not offering it, either.

Hanley says that his clients with few employees are happy about this provision. "They look at it and say: 'I can keep doing what I'm doing, or I can start providing insurance and claim the credit.' It's like a discount for them." In this economic climate, however, he doesn't foresee many business owners buying insurance immediately, even with the discount. "In the future, if things turn around, they might buy insurance and offer it in lieu of a raise," Hanley says.

More information on the tax credit is available at the HHS [website](#), and from the IRS [site](#).

Concern: Small businesses will be required to issue 1099s to all vendors.

Reality: True. In an effort to close the tax gap, all companies will be required to [issue 1099 tax forms to any vendor upon whom they spend \\$600 or more annually](#). This includes the deli catering your company meetings and the stationery store where you buy envelopes. It is likely to double accounting costs at some small companies, Hanley says.

Caveats: This provision goes into effect in 2012 and may be overturned or limited before then. "I hope so," Alter says. "It's great for payroll companies like mine and for office supply companies that provide the forms, but it's another administrative headache for small businesses that they really don't need."

Currently, 1099s are issued mainly to independent contractors and service providers. Broadly extending the requirement will mean that entrepreneurs who have never issued 1099s will likely have to send out 15 or 20 a year, Hanley says. Larger companies may have to mail out thousands of forms, undercutting government paperwork reduction efforts.

Concern: Medical insurance benefits will be taxed as income.

Reality: False. Taxing medical benefits was discussed as a cost-saving option during reform negotiations, but in the end the idea was dropped. The myth, however, lives on. "I get asked this every single day" by both individual and entrepreneurial clients, Hanley says. "They worry that they or their employees will have to pay taxes on whatever amount their health care benefits contribute to their income."

Caveats: The cost of health-care benefits must be listed on the W-2 forms business owners issue to their employees, starting in 2011. This will probably further the confusion. "People panic and think that anything listed on their W-2 is taxed," Hanley says. The cost will be listed for informational purposes and to insure that companies with 50 or more employees are indeed offering insurance, he says.

Want to read relevant portions of the health-care law itself? The Henry J. Kaiser Family Foundation has a [site](#) where you can call up specific portions of the law (just "employer requirements," for instance) that may apply to your company.

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