

Small Businesses Skip the Health-Care Tax Credit

Insurance brokers say response is low because the value of the benefit declines quickly for companies that pay average annual wages of more than \$25,000 or employ more than 25 workers

Sales are off by 20 percent this year at Image Computer, which repairs printers in suburban Detroit. So President Steve Olis is worried about whether he can continue paying the \$71,000 a year it costs him to provide health insurance for his employees.

The Obama Administration's answer for Olis and other small-business owners: a tax credit of as much as 35 percent of the insurance premiums they pay for employee medical coverage, a signature part of the health-care reform bill signed into law in March. Image Computer, however, doesn't qualify for the credit because Olis pays his 15 employees an average of \$55,600 annually, and companies with average salaries above \$50,000 aren't eligible. "At some point I can't do this any longer," Olis says of his rising health-care premiums.

Eager to promote the new small-business tax credit, the government this spring mailed 4 million eligible companies postcards with highlights of the program. The response has been tepid, according to insurance brokers who sell small-group policies. The reason, they argue, is that the credit starts to phase out for companies that pay average annual wages of more than \$25,000 or employ more than 25 workers. The value of the benefit declines quickly, so many business owners in high-cost states get no tax break, and those elsewhere often say the credit is too small to make much of a difference. Sales of health plans have gotten "very little traction so far," says James Stenger, director of business development for BenefitMall, which sells small-group plans in New Jersey.

Stenger says most of his clients pay their workers more than \$25,000 a year, so the average tax credit he's seeing for the few who qualify is about 10 percent of the cost of the policy. That's less than \$200 per worker—not enough to spur many business owners to start providing coverage. Brokers across the country report a similar response. JLBG Health in Warrenville, Ill., contacted 460 small businesses about the tax credit. Roughly 40 percent were eligible, though only seven of those companies qualified for the full benefit. Not one of the 400 New England employers served by Hampstead (N.H.)-based Landmark Benefits is eligible, the broker says. The legislation "is just not doing what we had hoped," says Steven Selinsky, the incoming president of the National Association of Health Underwriters.

U.S. Small Business Administration chief Karen Mills says complaints about the tax credit are premature. "This is all still in anecdote land," Mills said in an interview. She maintains that the income cap was needed to keep a lid on the cost of the tax credit and that the people with the greatest need—low-paid workers at the smallest companies—will be able to get coverage. Companies "want to provide health insurance [because] they're losing good employees when they don't," Mills says. "The math says [the program] is likely to be positive."

One company that has had success selling policies under the program is Blue Cross and Blue Shield of Kansas City, which launched a marketing push to promote the tax credit when the law was enacted. Although less than a quarter of small businesses in the Kansas City area qualify for the credit, the ad campaign paid off. Blue Cross has sold 227 plans to small businesses in the past three months—80 percent more than in a typical three-month period, says Tom Bowser, chief executive officer. Now, Blue Cross affiliates in other states are hoping to replicate the Kansas City marketing strategy—a combination of print ads, radio spots, and direct mail explaining the program's

advantages. The success "is tangible evidence that this legislation is having some effect," Bowser says, "and we're cashing in on it."

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