

No Easy Answers On Health-Care Tax Credits For Small Businesses

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May 10--To small-business owners, it can seem like every deal offered by the government comes with much head-scratching and a ton of paperwork.

The latest example is a tax credit offered in the new federal health-care law to encourage small businesses to provide insurance for employees.

Effective this year, the credit will take up to 35 percent of health-care expenses straight off the top of any taxes owed by the smallest businesses -- those with fewer than 25 full-time workers earning less than \$50,000 a year on average, and for whom the company pays at least 50 percent of premiums.

The deal is retroactive to the first of the year for taxes due next year. For businesses that qualify, it's Bingo! Free money!

And what's wrong with that?

According to some small-business owners, it's not as simple as it looks. As with many aspects of the new law, there are details. Many details. And not all have been spelled out.

Across the state, as news of the tax credit has spread slowly, many business owners -- and even their tax advisers -- are trying to figure out whether they qualify, whether they will make enough money to take advantage of the tax credit and, if so, how much it will save them.

Small businesses that don't provide health insurance worry that signing up to do so may be like buying a time-share condo in Greece: It might look like a good deal now, but how's it going to turn out?

The first question on most lists: Does my business qualify?

Judy Albrecht of Super Jock 'n Jill, a Greenlake-area running-and-fitness store, sighed deeply as she pondered the question. "I wish I had an answer, but I can't say that I do."

On her desk, she had a postcard from the IRS explaining the tax credit. But even after a visit to the accountant, the answer was murky, she said, because employees may end up working so many hours this year that the company has the equivalent of too many employees to qualify.

"I haven't really determined if we're eligible," she said.

Calculating hours and pay to figure out eligibility is only one of the math problems involved in the tax credit.

For Jason Hughes, part owner of Sonic Boom Records in Ballard and Capitol Hill, the question is more basic: Will his business make money this year? Last year, it didn't. This year, it's too soon to tell.

"I'm still trying to work that out," said Hughes, who provides health insurance for 10 employees. "A tax credit really isn't worth much unless you're writing it off against profits."

Gary Skrla, who cashed in savings and borrowed a pile of money to open Ace Hardware of Silver Lake nine months ago, would like to offer insurance to employees, but said the cash isn't there yet.

"What I've chosen is to pay a premium hourly wage to attract hardware sales talent and experience," he said. "Our people are the best, but they came at a premium."

A new business, Skrla said, is all about cash flow. "Until we cycle through a year, it's hard to say what to expect," he said. "As much as I would like to offer benefits, I can't have it leave me cash poor."

Jump-start economy

Despite those concerns, many employers -- even ones unsure they can use the credit -- say any help is appreciated. And they are appreciated, too: Economists say small companies often jump-start economic recovery.

In Washington state, most businesses fall into that category, with 78 percent employing fewer than 20 workers as of early last year.

The state Employment Security Department estimates that more than 100,000 companies might be eligible for some level of tax credit.

At this point, those smaller businesses are much less likely to insure workers.

Another program soon to be available to small-business employees is the Health Insurance Partnership. Run by the state with a federal grant, the program targets small companies that don't offer coverage.

This fall, it will begin enrolling businesses with 50 or fewer low-wage workers, aiming to cut costs for workers and employers.

For many small-business owners, the whole health-insurance world threatens to be T.M.I. -- too much information, and way too many numbers and charts.

While some brokers say affordable insurance often is available for small employers, many get discouraged before they even start looking for it.

Now, there's even more complexity. Even tax advisers are catching up on the tax credit's fine print. For example: The law says the amount an employer may claim as premium expense will be capped at the "average premium for the small group market."

And that would be ... well, that's not yet clear.

"Until the regulations are clarified, there are some things that can't be answered," said Dan Fisher,

employee-benefits consultant for the Washington Society of Certified Public Accountants.

"Personally, I don't think the small-business tax credit is going to encourage small businesses to offer health care or better health care."

Small businesses

For one thing, the credit applies only to the smallest firms.

For every employee above 10, and every dollar above an average wage of \$25,000, the credit "drops substantially -- fast," said Pat Schmick, a federal tax specialist known as an enrolled agent.

For a business with five workers and an average wage of \$35,000, the credit drops to 9 percent, she said.

Many businesses complain the tax credit doesn't address their most pressing problem: health-insurance rates that escalate unpredictably.

In some cases, even the most generous tax credit may absorb only the past two years' premium increases. And while the tax credit does increase up to 50 percent for some businesses in 2014, it vanishes two years later.

The credit is "a good first step," said Robert Gaw, president of the National Association of Socially Responsible Organizations, a nonprofit cooperative of small businesses and self-employed people. "If you can get anything out of the federal government that's going to help small businesses, it's practically a miracle."

Schmick noted that tax credits come straight off the top of what a business owes in taxes. "Credits are the good guys," she said. And -- listen up, Jason Hughes of Sonic Boom Records -- a business can carry over its tax credit for 20 years, hopefully enough time to turn a profit. .

Hughes said he'd be thrilled to be able to defray the "ridiculously costly expense" he's paying to insure 10 workers. He is committed to providing insurance even in hard times, he said, and pays 75 percent of medical and dental premiums.

"I used to work retail with no insurance; I was always scared I'd have a bike accident, or someone would hit me with their car, and what would I do?"

But his company's insurance costs have increased 10 or 15 percent every year while benefits have decreased.

He said he hopes the tax credit will help him and others in his small-business shoes. "I think the tax credit is a great idea in the big scheme of things. I think it will help out a lot of businesses next year. Even 35 percent is still something."

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