

Self-Employment Tax on Health Care

The fight continues for health care parity

NSBA successfully completed a battle in 2003. Self-employed individuals are finally able to deduct the cost of health insurance from their income to limit tax liability. This action brings small entrepreneurs on par with large businesses, whose employees always have been allowed the deduction. But they are not totally equal.

An important disparity still must be corrected before the matter can rest. At issue is the 15.3 percent tax that self-employed individuals must pay on their employer-provided health insurance costs to which nobody else is subjected. This significant tariff comes in the form of FICA payroll taxes, commonly referred to as payroll or self-employment taxes. The self-employment tax rate on net earnings is the sum of 12.4 percent for Social Security (old age, survivors, and disability insurance), and 2.9 percent for Medicare (hospital insurance).

Self-employed individuals, unlike large corporations, cannot deduct the cost of their health care as a business expense. They are able to deduct the cost of health care from their income, however, that income already has been exposed to the payroll tax. Thus, the self-employed effectively pay the self-employment tax on income used to purchase health care.

The self-employed pay an average of \$11,480 per year for health insurance. Because they cannot deduct this as an ordinary business expense, they pay a 15.3 percent payroll tax on their premiums. Therefore, they pay \$1,756.44 in extra tax (\$11,480 in premiums multiplied by 15.3 percent self-employment tax).

This is money that could be used to reinvest and grow the business, hire part-time help or cover the ever-increasing costs of current health coverage. This additional 15.3 percent tax makes already disturbingly high-priced health care practically obscene by adding thousands of dollars to the cost of an individual's health care.

This additional tax on entrepreneur's health care was highlighted in the NSBA's "Tax Equity Report." In the 109th Congress, NSBA was successful in persuading legislators in both the House and Senate to introduce bi-partisan legislation (*H.R. 4961* and *S. 663*) that would solve the problem. Both measures would allow the self-employed to fully deduct their health insurance premiums on their income tax and for their self-employment tax (FICA tax).

Therefore, the self-employed finally would achieve parity with corporations that are currently allowed to deduct their health coverage costs as an ordinary business expense. NSBA is hopeful these bills will be reintroduced in the 110th Congress, and passage remains a top priority.

NSBA believes legislators must realize that placing additional taxes on small-business owners' health insurance is not a sound policy position. A goal of this nation should be to encourage the adoption of health insurance by the self-employed, not price it out of their reach. NSBA continues to work with Congress to correct this final, but very important, roadblock to health care parity for small businesses.