

Self-Employment Tax on Health Care

The fight continues for health care parity

Problem:

Self-employed individuals, unlike large corporations, cannot fully deduct the cost of their health insurance as a business expense. Although NSBA won the first battle in 2003 allowing self-employed individuals to deduct the cost of health insurance for income tax purposes, they are still not on par with larger businesses, meaning more must be done.

- 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 the FICA payroll taxes—the self-employment tax rate on net earnings is the sum of 12.4 percent for Social Security and 2.9 percent for Medicare.
- Since 2003 small-business owners have been able to deduct the cost of health care from their income, however, that income already has been exposed to the payroll taxes. Thus, the self-employed effectively pay the self-employment tax on income used to purchase health care.
- The self-employed pay an average of \$12,680 per year for health insurance. Because they cannot deduct this as an ordinary business expense, the 15.3 percent payroll tax they alone pay on their premiums amounts to \$1,940 in extra taxes that only the self-employed pay.
- This additional 15.3 percent tax makes already disturbingly high-priced health care costs even more by adding thousands of dollars to the cost of an individual's health care.

Solution:

NSBA urges Congress to allow self-employed individuals to fully-deduct the cost of their health insurance—something all other business owners and employees are allowed to do. NSBA has been leading the charge on ending this unfair penalty on the self-employed for more than 10 years, and was integral in a one-year reprieve in 2010—which saved self-employed business owners between \$456 to \$968 in tax that year.

- The money self-employed individuals would save could be used to reinvest and grow their business, hire part-time help or cover the ever-increasing costs of health insurance.

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