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H.R. 1873 Would Level Playing Field

Washington, D.C., May 8, 2003 – An inequity in the tax code penalizes 16 million self-employed individuals, forcing them to pay an extra 15 percent in taxes on their health insurance premiums every year, National Association for the Self-Employed member Keith Hall told Congress today. No other business owner or employee in America bears this extra burden, said Hall, also a Certified Public Accountant.

Hall's comments came at a hearing of the House Small Business Subcommittee on Tax, Finance and Exports on covering the uninsured. In the nation's current health-care crisis, the self-employed have been hit particularly hard, facing rising costs of health care combined with laws that require these business owners to pay an extra 15.3 percent in self-employment taxes on their health insurance premiums.

"Imagine going to the movie and the person in front of you pays \$14.00 for his ticket. When you get to the window, the clerk charges you \$16.00 because you own your own business. The same movie, the same seat, the same popcorn, but you have to pay 15.3 percent more because you are self-employed," Hall said. "It doesn't make sense, and it's not fair."

The tax code technicality resulting in the health-care cost inequity lies in the payment of self-employment tax on health insurance premiums. While corporations are able to deduct health insurance premiums as a business expense and to forego FICA (Social Security and Medicare) taxes on these expenses, the self-employed are unable to deduct premiums as a business expense and are required to pay an additional 15.3 percent self-employment tax on these expenses.

The Self-Employed Health Care Affordability Act, H.R. 1873, addresses this inequality by eliminating the requirement that the self-employed claim health insurance premiums when determining self-employment tax.

"H.R. 1783 is an easy decision mixed up in a very difficult issue," Hall told the subcommittee. "Providing the small business owner with the same tax treatment that the big business already has is the right thing to do and will have an immediate impact on the affordability of health care for millions of self-employed business owners. There is no reason why my movie ticket should cost more just because I am self-employed; and the same goes for my health insurance."

The average self-employed individual pays \$7,954 annually in health insurance premiums for family coverage. Not only are these owners unable to deduct their premiums as a business expense (as larger businesses do); they must pay an additional \$1,216 (15.3 percent) in taxes on this amount.

"At a time when the price of health insurance premiums is skyrocketing – increasing an average of 13 percent last year for the self-employed – this inequality means the difference between having and not having health insurance," said NASE President Robert Hughes. "These added costs are a key reason why the self-employed and small-business people are the majority of those without health insurance today."

Over sixty percent of the nation's 41 million uninsured are from families headed by a self-

employed person or working for a small business. According to an NASE survey, seven in 10 micro-businesses do not have health coverage for themselves, or provide it to eligible employees, citing cost as the number one reason.

Hughes said the Self-Employed Health Care Affordability Act is a major step in leveling the playing field for these businesses, helping to ensure that they can afford insurance and freeing up money that can be used to help their enterprises succeed.

About the NASE

The National Association for the Self-Employed (NASE) is the nation's leading resource for the self-employed and micro-businesses, bringing a broad range of benefits to help entrepreneurs succeed and to drive the continued growth of this vital segment of the American economy. The NASE is a 501(c) (6) non-profit organization and provides big-business advantages to hundreds of thousands of micro-businesses across the United States. For more information, visit the association's web site at www.nase.org.