



A Micro-Business Story

Allowing a Self-Employment Tax Deduction on Health Insurance Premiums

Steve and Karen Thompson, Desert Sand Water Well
Lovington, New Mexico

Steve and Karen Thompson are the owners of Desert Sand Water Well, a well drilling and repair business operated from their home. The husband and wife team have been working together since 1995 and feel fortunate that their business has been able to take on additional customers each year. Still, the biggest burden they face is a shortage of additional funds to help cover the necessary expenses incurred while sustaining a business, such as equipment maintenance and upgrades. Steve would save \$722.00 in taxes each year if he did not have to pay self-employment tax on his health insurance premiums.

“Health insurance for the self-employed is high enough without having to pay an extra penalty in taxes,” Karen says. “Right now, our health care premiums cost more than our monthly mortgage payment, and we cannot save any money because it all has to go back into the business. Less tax would be a big help.”

Karen wishes they could use this extra money to put towards retirement savings or use it to help offset costs related to business travel, including hiring someone to assist clients when she and Steve are out of the office attending to other business needs. For example, the couple is required to attend continuing personal education classes each year to keep their drilling and repair licenses up-to-date. As a two-person operation, they are either forced to shut down the business while gone or decide who must forgo licensing which limits their business growth.

“Many times when customers call us, it’s for an urgent repair need. If we’re not available because we’re out-of-town they are going to find someone else, and I don’t blame them.”