



November 10, 2009

Employer Taxes May Spook Senate on Health Care

Written by: Susan Ferrechio

As the Senate prepares to vote on its version of health care legislation, one of the most contentious issues will be a provision requiring employers to provide insurance coverage.

With the jobless rate at 10.2 percent and expected to climb, penalties for employers who don't offer insurance benefits will make it difficult for moderate Senate Democrats to support the plan.

While most big companies provide workers with health insurance, many smaller employers do not, and they would end up having to come up with the money to either buy coverage or pay a penalty.

"There is no question it will result in job loss and it will encourage employers not to hire employees," said John Goodman, president of the conservative National Center for Policy Analysis.

In the Senate, Democratic leaders are considering a \$750-per-worker tax on companies that employ more than 50 people but don't offer benefits.

The House bill passed narrowly on Saturday night requires employers to pay a tax of 8 percent of total payroll if they do not provide health care coverage that meets federal standards. The House bill requires companies to pay 72.5 percent of a single

worker's health care premiums and 65 percent of a family's coverage.

Goodman called the proposal "a huge tax on labor," especially if it is coupled with the 2.5 percent income tax that would be levied on an individual who went without coverage under the House bill.

The House bill would also assess a graduated payroll tax beginning at 2 percent for companies earning \$500,000 annually and rising to 6 percent for those making between \$670,000 and \$750,000 per year.

"There are plenty of employers earning more than \$500,000 annually," said Amanda Austin, director of federal public policy for the National Federation of Independent Businesses. "That, in our estimation, is right around a 15- to 17-employee firm."

Companies are so fearful of a looming tax and mandate coupled with the tough economy, Austin said, that many have stopped hiring. If the an employer mandate become law, she said, many companies will shed jobs.

"The workers who are going to get cut are the low-wage workers," Austin said. "Or the employer will cut them down to part time, or won't expand the business. Or, he'll keep his full-time workers, and nobody gets raises."

Henry Aaron, a health care expert at the liberal Brookings Institution, said employer mandates play a critical role in reforming health care by providing an incentive for companies to maintain employee health care coverage. Without such penalties and taxes, Aaron said, companies would be tempted to boot workers into the new government plan.

"There are going to be gainers and losers, but on balance, there is no reason to expect that these costs over the long haul are going to put a big dent in profits," Aaron said. "They are most likely to put a big dent on future wage increases that workers enjoy."