

The Washington Times

July 31, 2009

'Blue Dog' prescription is bad business

Written by Terry Neese

Recently, a 1,018-page health care proposal was introduced in the House of Representatives that would cost nearly \$1 billion per page and still wouldn't solve the problem of providing coverage to all Americans. In fact, according to the Congressional Budget Office, under the House bill, the number of Americans without health insurance would increase over the next three years.

The House proposal would expand Medicaid, raise taxes, create a new government-controlled insurance market, and just in case these provisions aren't comprehensive enough it also creates a government-run public option. However, the current proposal would still fail to provide insurance for more than 35 percent of the currently uninsured.

Who is going to pay for increased coverage? Small business for one -- big time! And small business owners are now paying attention and they are upset!

To pay for new spending, the House Democrats are proposing a surtax on those persons who make \$280,000 or more. (The tax would range from 1 percent to 5.4 percent.) The tax would continue to rise the more money you make. The proposal doesn't include any exemptions for S corporations or other small businesses, many of which file as individuals for tax purposes. In fact, half of all small businesses with 20 to 249

employees are likely to have their income affected by the surtax. The new Blue Dog "deal" struck with moderate Democrats still would impose new taxes and mandates on small employers with 17 or more employees. Based on the U.S. Small Business Administration numbers, the small businesses that are affected by the "deal" employ 70 percent of all small business workers, or 42.3 million workers. Finally, this "deal" still imposes the full 8 percent payroll tax on small businesses with only 32 employees. This is not a "deal"!

The bad news doesn't stop there. If the surtax doesn't generate enough revenue to cover the costs of the bill by 2013, the surtax automatically would double. For business owners, that is like charging your customers double for a product because you can't meet your numbers for the year.

It gets worse still. Employers whose payroll exceeds \$400,000 and who cannot provide coverage to their employees would be hit with a penalty equal to 8 percent of workers' wages. According to the National Federation of Independent Businesses, this new mandate would result in the loss of more than 1.6 million jobs over five years, 1 million of those from small businesses.

Surtaxes and mandates only hurt our small businesses, which are struggling to keep their doors open and the lights on in this difficult economy. This is no time to tell

small businesses they have a choice between paying a new tax or being mandated to buy expensive health plans for their employees, especially when our small businesses account for about two-thirds of new jobs created.

Let me give you a real-life example. A businesswoman who owns a small private investigation and security company in Queens, N.Y., employs 124 people and hopes to grow her business to 300 people later this year. She can't afford these new mandates.

Last year, her gross payroll was \$3.9 million, and her net payroll was \$2.8 million, which means her payroll taxes alone were just shy of \$1 million. Adding an 8 percent penalty on workers' wages would mean her revenue would go down another \$320,000 a year. That is real money when you are trying to grow and expand your business.

She provides health care to some of her employees but isn't able to do so for everyone in the company, mainly because she is paying higher-than-average wages. Forcing her to provide health insurance for all her employees would drive her to raise her prices, lay off people or shut her doors.

Stories like this can be found all across America. Most small businesses are struggling with rising costs and smaller margins and simply are unable to pay for new taxes or mandates. Instead of forcing them to provide health care coverage, our policymakers should look at innovative ways to provide health care that give owners more choices. Ideas like expanding health savings accounts or allowing the owners of small businesses to band together across state lines to pool their resources for health care coverage are better alternatives than new taxes and more mandates.

Congress needs to take its time to get it right. Small business owners are ready to give voice to their elected officials when the lawmakers are back in their districts in August. Their message will be one of "protect small businesses from tax increases and expensive mandates. The current proposals will eliminate jobs, cut private insurance carriers out of the market and destroy entrepreneurship as we know it."

Terry Neese is a successful entrepreneur and a distinguished fellow at the National Center for Policy Analysis (NCPA), where she heads the organization's Family Policy Center.