

A QUANTITATIVE ANALYSIS OF THE AFFORDABLE CARE
ACT'S EFFECTS ON SMALL BUSINESSES

by

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ABSTRACT

The focus of this paper is to study the Affordable Care Act's effects on small businesses including compliance mandates and the options available. Looking at the Small Business Health Option Programs, I question the option variances based on the entity type, size of the small businesses, and type of exchange based on the businesses state of operation, hypothesizing that the effects would vary based on each factor. Additionally, I examine the tax impacts these small businesses are faced with because of ACA compliance. To answer these questions, I created 12 hypothetical companies each varying based on the entity type, company size, and type of exchange. Using historical data for the microbrewery industry, I determined pre-ACA expenses for small businesses to provide health insurance to employees and compared expenses post-ACA after these hypothetical employers purchased health insurance over the exchanges. My findings lead to the conclusion that purchasing health insurance for employers was less expensive post-ACA than pre-ACA and created a greater tax liability for each entity. My hypothesis proved to be false as the ACA's effects on small businesses did not vary across company size, entity type, or type of exchange. The results of this study are limited to the assumptions made and cannot be applied to all small businesses.

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Introduction:

President Obama signed the Patient Protection and Affordable Care Act on March 23, 2010, significantly changing policies and procedures regarding health care insurance. The ACA is one of the broadest statutes passed by Congress in the past fifty years, encompassing over two thousand four hundred pages of guidelines, policies, and procedures (Anelli, 2013). One of the ACA's primary goals is to protect consumers' interests by making health care more accessible and affordable. While most Americans are affected by the ACA, the focus of this study will evaluate the impact specifically on small businesses.

The ACA mandates that businesses which meet certain criteria, based on the number of full-time employees, must provide medical care coverage to their employees or incur a penalty (Employers with 50 or More Employees, 2015). To help satisfy the ACA mandate, health insurance marketplaces or exchanges have been established by the federal and some state governments. Small businesses can purchase health insurance for their employees through a platform created by the ACA known as the Small Businesses Health Options Programs (SHOPs).

Based on the review of literature, authors either support or oppose the ACA. Supporters believe the SHOPs have been successful and provide great potential as a health insurance marketplace for small businesses, and opponents argue the SHOPs lack of popularity, inequity, and difficult access. Although the ACA was implemented in 2010, the SHOPs did not go into effect until 2014. While the ACA is commonly discussed, the SHOPs receive little attention, partially because of their recent establishment. Now that the SHOPs have been implemented for one year, it offers an opportunity to identify the different options small businesses have under the SHOPs and to examine how the options vary based on the type of exchange, entity, and size of the business.

In this paper, I examine how the ACA's employer mandate applies to small businesses and how the effects vary by the size of the small business (small, medium, large), the entity type (limited liability company or corporation), and the type of exchange (state or federal). By examining the types of small businesses impacted by the ACA, the level of coverage that they must provide to employees, and the various ways that they can comply with the mandate, this study will offer insights into the ACA's impact on small businesses throughout the country.

Background:

Affordable Care Act Background

One of the ACA's primary goals is to protect consumers' interests by making health care more accessible and affordable. While many Americans are affected by the ACA, the focus of this study is to examine how the ACA impacts small businesses, specifically through the tax implications placed on them and their employees as taxpayers.

The ACA has tax implications for businesses and individuals. Tax implications encompass record keeping standards, tax rebates, flexible spending account contributions and imposition of new Medicare tax assessments (Employers With Up to 50 Employees, 2015). Businesses must implement new disclosures and W-2 reporting requirements. Medical loss ratio rebates reimburse businesses for premiums paid when their employees' health care expenses were less than 80-85% of premiums collected. This concept is similar to the income tax refund in that it is a reimbursement to businesses for overpayment of premiums versus actual expenses for health care provided. The ACA limits flexible spending account contributions to \$2,550 in 2015, so each the employer and employee can contribute, but the sum of contributions regardless of the source cannot exceed \$2,250 per year. The employers' contribution is a deductible business expense, and is not taxable to the employee, while the employee's contribution is a for AGI

deduction. The ACA imposes an additional 0.9% Medicare tax on salaries, wages and self-employment income for single individuals earning \$200,000 or more, and \$250,000 or more for married couples filing jointly (Souter and Gurevitz, 2012). The ACA also imposes a "...3.8% Medicare tax on unearned or passive income, such as interest, dividends, royalties, rents and certain taxable gains..." for taxpayers in the higher tax brackets (Souter and Gurevitz, 2012, p.56). Additionally, small businesses are also impacted by the ability to provide health insurance coverage to employees under the Small Business Health Options Program (SHOPs) and eligible tax credits. The focus of this study is limited to SHOP offerings and impacts, and the related tax credits.

Identifying the number of full-time employees (FTE) is a critical component in determining the impact the ACA has on the business. The ACA defines a FTE as, "an individual employed on average at least 30 hours of service per week," (Questions and Answers, 2015, p. 3) based on statistics from the previous year. Large employers by definition have fifty or more FTEs, whereas small employees have fewer than fifty FTEs. *Healthcare.gov* provides an online calculator for small businesses to properly calculate the number of FTEs. The ACA mandates that large employers offer health care coverage to employees or pay a fine, whereas small employers have the option to provide coverage through the SHOP. The size of the business, large or small, will therefore have a pivotal impact in determining how the employer will comply with the mandates in terms of offering health care coverage for their employees (Find out How the ACA Affects, 2015).

According to the ACA, individuals are required to maintain health care coverage or face penalties levied by the government and collected by the IRS when filing his or her personal tax return. Large employers are required to provide minimum essential health care insurance

coverage to their FTEs through shared responsibility provisions. Individuals and small businesses can maintain health care coverage through individual health care exchanges or the SHOPs.

Large Employers

A large employer is required to abide by a shared responsibility provision by offering minimum essential coverage (Employers with 50 or More Employees, 2015). The ACA defines minimum essential coverage as that which provides 60% or more coverage for the total cost of eligible benefits, including deductibles and co-pays (Employer Shared Responsibility Provisions, 2015). This provision is intended to ensure that large businesses provide affordable health care coverage to FTEs. Coverage is deemed affordable when health care payments, including premiums, deductibles and co-pays, total 9.5% or less of the employees' annual household income. Large employers are subject to an "Employer Shared Responsibility Payment," or penalty, for non-compliance. The penalty is levied when an employee of a large employer qualifies for and receives an individual tax credit for health care coverage because the employer's contribution fails to keep the employee's expense at or below 9.5% of their annual household income. The Employer Shared Responsibility payment is equal to the number of FTEs for the year, minus 30, times \$2,000. For example, a business that employs 60 full time employees who does not offer health care coverage is subject to a payment equal to 60 minus 30, times \$2000 which results in a total payment of \$60,000.

Small Employers

Small employers are not required to provide health insurance to employees and do not face a fine. Employees of small employers not providing coverage can purchase coverage from the individual exchange. The ACA allows small employers the ability to offer coverage through

SHOPs, commonly referred to as marketplaces or exchanges. Coverage began under these exchanges in 2014. The intent of the SHOPs is to offer affordable, high quality health care coverage to full-time employees by pooling small businesses together (Employers With Up to 50 Employers, 2015). This pooling spreads the risk for insurers across a population that is larger than a single small business, thereby decreasing the cost of premiums for the individual small business. The SHOPs are intended to increase the purchasing power of small businesses, allowing them to provide higher quality health care coverage at a lower cost than the individual small business can achieve by purchasing an insurance package as a single entity.

SHOPs offer four levels of benefit packages based on coverage and cost. Platinum plans offer the highest level of coverage and bronze plans provide the lowest level of coverage. Silver and gold plans fall in between, providing mid-level health care coverage. The ACA links state participation in health care coverage to the type of exchange, state-facilitated or federal-facilitated (Gabel, 2015).

State-Facilitated Exchanges

If the state chooses to set up their own health insurance exchange, it is state-facilitated. State-facilitated exchanges offer “employee choice” allowing small business employees to choose their coverage level, platinum, gold, silver, or bronze, and the specific plan under that metal tier which varies on premium expenses and deductibles (Gabel, 2015). For example, a small business in California would allow their employees to pick from any plan available on the state-facilitated exchange, *Covered California*, and contribute a specified amount of the premium expense. Assume that this small business has agreed with its employees to pay a premium expense up to \$500. One employee could choose a gold plan with a premium of \$750 and ultimately pay \$250 personally, whereas another employee could select a silver plan with a

premium expense of \$500 and pay \$0 personally. Regardless of the plan the employee chooses, the small employer is paying up to \$500 of premium expense per employee.

Federally-Facilitated Exchanges

Federally-facilitated, or joint run, exchanges offer “employer choice.” Small businesses operating under federally-facilitated exchanges choose the tier of coverage for their employees, and the employee then selects a specific plan under the chosen metal tier (Gabel, 2015). For example, a small employer in Texas may choose to provide coverage for employees and pay for the premium expenses for any bronze plan. The employee of the small business would then go to the federal exchange, *healthcare.gov*, and select a bronze plan of their choice, which would vary on premium expenses and deductibles. The amount the employer pays for each employee may vary slightly, however each metal tier has similar pricing options.

Small Employer Tax Credits

Some small businesses are eligible to claim the “Small business tax credit” by offering employees’ health care coverage through the SHOPs and meeting further requirements (Small Business Health Care Tax Credit and the SHOP Marketplace, 2015). The tax credit is designed specifically for small businesses with fewer than 25 employees, earning a salary less than \$50,000 annually across the 25 employees, and contribute 50% or more to their employees’ health care coverage premiums. The tax credit is worth up to 50% of the employer’s contribution to the employees’ health insurance premium expenses, providing significant incentive for the small business to participate in the SHOP exchange. The amount of the credit works on a sliding scale and is adjusted depending on the number of employees and the average employee salary, so the higher the salary, the lower the subsidy if any at all (Kitces, 2013). The credit flows directly to the insurance company to subsidize the insurance premiums and may be carried forward for

employers not owing a premium in the current year. *Healthcare.gov* provides a small business health care tax credit estimator and will be used to assess the value of tax credits for my analysis (Small Business Tax Credit Calculator, 2015 and Small Business Health Care Tax Credit Estimator, 2015).

Taxation of Business Entities

Limited Liability Company (LLC):

Businesses defined as LLCs are treated as sole proprietorships or partnerships, depending on the number of members or owners (IRS.gov). Unlike corporations, the LLC is not a separate tax paying entity and the business itself does not pay federal income tax, its owner(s) does. LLCs are commonly referred to as “pass through” entities because the profits and losses of the business flow through to the owner(s). LLCs can have one or multiple owners. LLCs with a single owner are taxed as a sole proprietorship, reporting all profits and losses on the owner’s personal income tax return using *Schedule C* of the IRS Form 1040: Profit or Loss from Business (Sole Proprietorship). LLCs with multiple owners classify the business as a partnership. Each owner has a stake in the business and is personally taxed on his or her share of profits or losses. How owners divide profits and losses is defined in the LLC’s operating agreement. Assuming the owner is an individual, the owners’ portions of profits and losses are reported on *Schedule E* of Form 1040: Supplemental Income and Loss (IRS.gov). This study focuses on LLCs with single individual owners subject to federal income taxes. The federal income tax rate is determined by the individual’s taxable income. The 2015 individual tax rates are depicted below in Figure 1.

Figure 1: 2015 Individual Tax Rates for Single Filers:

Taxable Income	Tax Rate
\$0 to \$9,225	10%

\$9,226 to \$37,450	\$922.50 plus 15% of the amount over \$9,225
\$37,451 to \$90,750	\$5,156.25 plus 25% of the amount over \$37,450
\$90,751 to \$189,300	\$18,481.25 plus 28% of the amount over \$90,750
\$189,301 to \$411,500	\$46,075.25 plus 33% of the amount over \$189,300
\$411,501 to \$413,200	\$119,401.25 plus 35% of the amount over \$411,500
\$413,201 or more	\$119,996.25 plus 39.6% of the amount over \$413,200

Owner(s) of LLCs are considered self-employed, so each owner must pay estimated taxes and self-employment taxes quarterly to the IRS and state tax office (Self-Employed Individuals, 2015). Self-employment taxes consist of Social Security and Medicare taxes. In 2015, the self-employed Federal Insurance Contributions Act (FICA) tax rate was 15.3% on the first \$118,500 of net income and an additional 2.9% on income exceeding \$118,500 (Averkamp, 2015). In effect, the self-employed individual must contribute both the employer and employee portion; therefore, 12.4% is taxed for Social Security and 2.9% for Medicare, totaling 15.3%. A single owner of an LLC pays self-employment tax on 92.35% of their Schedule C earnings. For example, if he or she has Schedule C earnings of \$100,000 annually he or she would pay taxes equal to \$92,350 times 15.3% for a total tax payment of \$14,130.

Some states assign an LLC tax on the business, commonly referred to as an LLC fee or franchise tax. This franchise tax, in addition to the owner's income tax, is imposed on businesses as a privilege for doing business in the state of operation.

In the state of Texas, the 2015 franchise tax rates are (Texas Franchise Tax Report, 2015):

- 0.95% for most entities

- 0.475% for qualifying wholesalers and retailers
- 0.575% for those entities with \$10 million or less in annualized total revenue using the EZ computation

The tax rates are assessed on the taxable base, which is equal to the entity's margin and is calculated in one of the following ways:

- Total revenue times 70%
- Total revenue minus cost of goods sold (COGS)
- Total revenue minus compensation
- Total revenue minus \$1 million

There is no minimum franchise tax; however, an entity with a tax due less than \$1,000 or annualized total revenue less than or equal to \$1,080,000 is not required to pay the tax. Texas does not impose a state income tax on residents; therefore, LLC owners in Texas are only subject to federal income taxes and the LLC franchise tax.

In the state of California, LLCs with a single owner are responsible for paying an annual tax of \$800 and an LLC fee if total income is equal to or greater than \$250,000 (Limited Liability Companies, 2015). The \$800 LLC tax is assessed as a privilege of doing business in the state of California. The business must estimate the LLC fee it will owe for the year and make an estimated payment. The LLC fee varies depending on the LLC's total income for the year and is depicted below in Figure 2 (California LLC Taxes, 2015).

Figure 2: California LLC Tax and Fee

California LLC Taxes and Fees (Tax years 2001 - present)

Total Income (Fiscal year)	LLC Tax +	LLC Fee =	Total CA Taxes
< \$250,000 (incl. any loss)	\$800	\$0	\$800
\$250,000 - 499,999	\$800	\$900	\$1,700
\$500,000 - 999,000	\$800	\$2,500	\$3,300
\$1,000,000 - 4,999,999	\$800	\$6,000	\$6,800
\$5,000,000+	\$800	\$11,790	\$12,590

California imposes a state income tax on its residents as shown in Figure A below. Therefore, LLC owners in California are subject to federal income taxes, state income taxes, an LLC tax, and an LLC fee.

Figure A: 2015 Single Filer California Tax Schedule

2015 California Tax Rate Schedules

Schedule X — Single or married/RDP filing separately

If the taxable income is					
Over	But not over	Tax is			Of amount over
\$0	\$7,850	\$0.00	plus	1.00%	\$0
\$7,850	\$18,610	\$78.50	plus	2.00%	\$7,850
\$18,610	\$29,372	\$293.70	plus	4.00%	\$18,610
\$29,372	\$40,773	\$724.18	plus	6.00%	\$29,372
\$40,773	\$51,530	\$1,408.24	plus	8.00%	\$40,773
\$51,530	\$263,222	\$2,268.80	plus	9.30%	\$51,530
\$263,222	\$315,866	\$21,956.16	plus	10.30%	\$263,222
\$315,866	\$526,443	\$27,378.49	plus	11.30%	\$315,866
\$526,443	AND OVER	\$51,173.69	plus	12.30%	\$526,443

C Corporation:

C corporations are separate taxpaying entities. C corporations are legal, independent entities owned by its shareholders. The C corporation itself is legally liable for the actions of the

business, not its shareholders. The C corporation reports revenues and losses to the IRS using the U.S. Corporation Income Tax Return, Form 1120. C corporations are subject to “double taxation” because the corporation is taxed when profits are earned and the second tax occurs when shareholders receive dividends from the corporation. Dividend distributions to shareholders are not tax deductible for the corporation, and shareholders cannot deduct any losses of the corporation on their personal income tax return (IRS.gov). Additionally, C corporations are subject to the same tax as the LLC , 0.95% in Texas and a flat \$800 in California.

The C corporation withholds federal income taxes from its employees’ wages and deposits its withholdings (Publication 15, 2015). In addition, 6.2% of an employee’s earnings are withheld for Social Security and the employee must pay a matching amount, totaling 12.4% for social security. Social security has a wage base limit of \$118,500 (Benefits Planner, 2015). The tax rate for Medicare is 1.45% each for the C corporation and employee, totaling 2.9%. The C corporation’s social security contribution of 6.2% and Medicare contribution of 1.45% are deductible business expenses. A 0.9% additional Medicare tax is imposed on an employee’s wages exceeding a threshold amount depending on the employee’s filing status.

In California, C corporations pay an 8.84% state income tax on net income in addition to the franchise tax (C corporation, 2015). Texas does not have a state corporate income tax. Therefore, the C corporation is responsible for federal income taxes and the franchise tax only.

Literature Review:

A political debate continues as the ACA celebrates its fifth anniversary. Review of literature surrounding the ACA demonstrates a variety of opinions favoring and opposing the impact of tax implications on both businesses and their employees. Those favoring the ACA

champion the progress made with respect to health care accessibility (Greer, 2011; Anelli, 2013; Lahm, 2014), while those opposing the ACA fixate on the failures and negative impacts imposed on taxpayers (Jost, 2012; Kingsdale, 2012; Gabel, 2015). Knowledge of these opposing viewpoints is critical to understanding why the ACA is one of the nation's largest debates. The next sections review the financial, legal and political experts' opinions, and further examine the ACA's impact on businesses.

Opposing ACA

ACA opponents cite negative impacts imposed on society, including burdensome complexity (Anelli, 2013), high stakes for employers (Anelli, 2013; Lahm, 2014), inequality across states (Greer, 2011), the underwhelming appeal of SHOPs (Weil, 2015; Navigating, 2015), and potential legal, moral and ethical issues associated with the statute (Sandefur, 2015). A significant concern is the ACA's burdensome complexity for businesses and individuals. One such burdensome factor in the 2,409 page statute is the challenging and tedious task for businesses to calculate the number of full-time employees.

James P. Anelli is an attorney at LeClairRyan where he leads the national law firm's Affordable Care Act Team, providing counsel to help clients comply with state and federal employment requirements. He points out that the criteria of Applicable Large Employers does not refer to employing fifty actual human beings, but entails "...a complex calculation involving the hours of both part-time and full-time workers, along with a raft of complicating caveats, qualifiers and convolutions" (Anelli, 2013, p.14). According to Anelli, calculating the number of full-time employees is so challenging that businesses have two options. The first option is to hire attorneys or highly-trained experts to sort through the complex calculations. The second option is

to assume that the company must adhere to ACA policies and will have to implement some form of compliant health care coverage.

Opponents assert that the costs and risks associated with the ACA place a heavy burden on businesses of all sizes. These costs include fines and penalties from federal agencies, along with the potential for lawsuits by employees. Failure to provide minimum essential coverage results in a significant penalty that is: \$2,000 times the number of full-time employees, minus 30. For example, a business with 100 employees would be fined \$2,000 times 70, or \$140,000 each year the company is non-compliant. This fine is not deductible for tax purposes (Anelli, 2013).

The ACA also creates risk of lawsuits brought on by employees. Businesses face a constant threat from opportunistic attorneys who look for inaccuracies in how employers implement the ACA (Anelli, 2013). One example of an error is reducing the number of full-time employees to avoid the hassle and expense associated with the ACA (Anelli, 2013). Dr. Robert Lahm is a Professor of Entrepreneurship and Director of the Master Entrepreneurship Degree Program at Western Carolina University and was recently awarded the Distinguished Research Award. Surveys show that “small businesses are reacting to the ACA by reducing hours and putting off hiring” (Lahm, 2014, p. 132). This harmful impact of the ACA is illustrated by Trader Joe’s, Home Depot, and UPS eliminating benefits for part-time employees and for employees’ spouses in order to afford the ACA mandated benefits for full-time employees. Opponents further assert that there is the certainty of lawsuits for businesses who violate even one rule of the ACA from employees who claim that they were deprived of benefits by an unfair reduction in their work hours. In addition, opponents of the ACA assert that businesses will attempt to reclassify their employees as independent contractors or part-time employees in an effort to

reduce their health care coverage costs. Because of this, Anelli (2013) suggests that the individual states and the IRS will increase scrutiny of the classification of employees.

Since not all states implemented ACA reforms, opponents say this creates unequal opportunities for individuals and businesses to obtain affordable health care coverage. While SHOPs offer a variety of choices and coverage options, state level reforms increase variations across states, making uniform offerings impossible. Scott L. Greer, Ph. D is an Associate Professor of Health Management and Policy at the University of Michigan and the Senior Expert Advisor on Health Governance for the European Observatory on Health Systems and Policies. Greer says, “that such variation is inequitable because similarly situated people will receive coverage in one state but not another” (Greer, 2011, p. 470). States that do not facilitate their own exchange will have a federal exchange created for them in an effort to create equal offerings from state to state. Greer asserts that the risk for state-facilitated exchanges is that, unlike the federal government, states cannot operate with a deficit. He states that the risk associated with state-facilitated exchanges increases potential for failure. “States that take initiatives in the spirit of the law will have ample opportunities to innovate,” (Greer, 2011) thereby combating the risk. Opponents argue that this variation imposes a negative impact on society because of unequal opportunities and choices for residents residing in different states. Christina Sandefur serves as Goldwater Institute’s Vice President for Policy and works as a senior attorney litigating cases advancing taxpayer rights. She writes, federal funding is provided to states but, “costs to states will only increase,” (Sandefur, 2015, p. 18) regardless of whether the exchange is state or federally facilitated.

Alan Weil serves as Editor-in-Chief of *Health Affairs*, the nation’s leading peer-reviewed journal focusing on health care and policy. Weil states the vast impacts of the SHOPs remain

understudied, receiving less attention than large health insurance exchanges (Weil, 2015).

However, studies of SHOPs reveal an underwhelming appeal for the small businesses they are designed to serve.

David Blumenthal is an academic physician and health care policy expert. Sara Collins is the Vice President for Health Care Coverage and Access Program at the Commonwealth Fund, a private foundation aiming to promote a high-performing health care system. These co-authors say the motive behind SHOPs is to offer affordable, quality health care coverage plans for small businesses who historically “have struggled to offer affordable coverage, paying an average of 18 percent more in premiums than large employers” (Blumenthal, D., & Collins, S. R., 2014, p. 280). However, higher prices, lack of robust advantages over group plans, and administrative difficulties in implementing SHOPs cause opponents of the ACA to consider it a failure. SHOPs offer few advantages over group policies. In a roundtable discussion, health care professionals, health insurance agents and educators, and financial planners discussed the SHOPs. They noted that “...Part of the reason that SHOPs have failed is that the rates, while not awful, are still not at the level where most small businesses would be able to afford them absent any assistance” (Navigating, 2015, p. 5). “Prices on exchanges appear to be higher for many, including younger individuals” (Lahm, 2014, p. 137). Small businesses with few employees avoid the administrative headache of enrolling in SHOPs by encouraging their employees to purchase plans on their own through an individual exchange (Navigating, 2015). SHOPs suffer from the same argument of burdensome complexity as the ACA in general. Navigating *Healthcare.gov* is a great place to begin searching for plans but, “it’s not a one size fits all tool” (Navigating, 2015, p. 31) since some plans are not on there. Angie Lieb, a licensed health insurance agent, points out that “the SHOP is pretty much nonexistent where we are,” in part because employee choice

models “never got off the ground” (Navigating, 2015, p. 32). Insurance brokers reiterate the benefits “from the inputs and assistance of someone who knows what they’re doing” (Navigating, 2015, p. 31) as the SHOPs are “not particularly functional online” (Navigating, 2015, p. 32).

The ACA’s individual mandate requiring everyone to possess health insurance coverage or face a penalty is difficult to operationalize in practice. Those who are uninsured are required to pay a penalty, -but the IRS has a difficult time actually collecting the penalty. Unlike federal income taxes, the IRS does not have the same collection authority and cannot pursue criminal penalties against those who do not pay the insurance penalty(Souter and Gurevitz, 2012). Patrick Souter and Jennifer Gurevitz work as attorneys at Gray Reed and McGraw, P.C., specializing in health care and taxation. They state that, “the IRS has not stated how it will pursue” the uninsured, “but the only likely remedy is to employ offsets against federal tax refunds” (Souter and Gurevitz, 2012, p. 56). Failure to enforce penalties on those who fail to comply with the ACA indicates one of the ways in which noncompliance will be tolerated.

Opponents of the ACA also cite a general disorder surrounding the act’s implementation. Sandefur asserts that, “the Obama administration delayed, waived, or otherwise ignored key provisions of the act over two dozen times...President Obama has decreed these changes by press conferences, unilaterally altering the law to suit the expediency of the moment” (Sandefur, 2015, p. 18). She further claims that, “in the end, the ACA’s most destructive legacy may not be its damage to the health care industry but, the culture of lawlessness it encourages and perpetuates” (Sandefur, 2015, p. 21). The legal issues raised by ACA opponents established an intense debate about health care reform, and still continues five years after the statute passed into

law. ACA opponents argue that these legal issues adversely impact society because laws are not enforced and timeliness is disregarded.

The ethical and moral issues raised by opponents are additional concerns cited. The state of Arizona voted against a federally-facilitated exchange. Sandefur (2015) uses Arizona as an example of ethical concerns as intense pressure is levied upon states to implement the ACA state-funded health care exchange. Because of this, Sandefur (2015) argues that it would cost taxpayers millions of dollars annually, providing kickbacks to private health insurance companies and making the state complicit in enforcing the ACA, even though Arizona voters rejected it (Sandefur, 2015).

The Obama administration's letter to former Arizona governor Jan Brewer, an ACA opponent, revealed the federal government's all or nothing approach to the Medicaid expansion mandate. This letter made clear to Governor Brewer that failure to expand Medicaid to the fullest extent required under the ACA would result in the state's loss of all Medicaid funds. The Supreme Court declared that a mandatory expansion is unconstitutionally coercive. Governor Brewer inexplicably changed her opinion and demanded that Arizona implement the new Medicaid program that she had successfully resisted. Sandefur (2015) asserts that, "the true beneficiaries of Medicaid expansion are not people, but the politically connected hospitals that lobbied to line their pockets with the Medicaid expansion program's sizable funds" (p. 20). Hospitals are urged by lawmakers to pursue expansion at all costs because they benefit significantly from federal subsidies.

The procedural, legal, and ethical impacts noted by opponents of the ACA will continue for years to come. Five years later, the theory that "opposition to health reform is intense but short lived," (Greer, 2011, p. 472) suggests that opposition is obviously intense but not short-lived.

Supporting ACA

Supporters of the ACA advocate the all-inclusive provisions of health care reform, the unprecedented ability for individuals and small businesses to have choices of health care plans, and the carefully constructed regulations to guide implementation. Prior to health care reform, individuals were denied insurance coverage for a variety of reasons, including pre-existing health issues. The ACA made extensive reforms to provide accessible insurance coverage for everyone.

Timothy Jost, is the director of the Robert L. Willett Family Professorship of Law at the Washington and Lee University School of Law and is also the co-author of *Health Law*, used widely in the teaching of health law. Title 42 of the U.S. Code, Section 300gg-11(a) (1) requires insurers to “accept every small employer that applies for coverage, and all of its employees” (Jost, 2012, p. 267) without being able to limit open enrollment periods for employers, as they can be admitted whenever they apply for coverage. A roundtable discussion of medical professionals and educators, moderated by Michael Kitces, discusses the key points of the ACA. This unprecedented code makes health insurance coverage unilaterally available to everyone, regardless of their age or health (Kitces, 2013). ACA supporters conclude that this accessibility allows ACA to achieve its goal of offering affordable health care coverage to everyone.

Supporters of the ACA cite wide-ranging benefits of SHOPs, including the ability for small businesses and individuals to obtain quality, affordable health care coverage. The Congressional Budget Office has estimated that “SHOP enrollment will reach three million people in 2017” (Gabel, 2015, p. 732). According to Jost (2012), “the vast majority of US employers are small businesses,” (p. 268) therefore, exchanges offer an opportunity to improve small-group coverage. The exchange aids small businesses by fulfilling functions “served by human resources departments” (p. 267) and by “aggregating premiums so that employers will not

have to pay premiums for each employee separately... calculating each employee's share of the premiums" (Jost, 2012, p. 269). Jon Kingsdale provides his expertise in health care exchanges to provide consulting services at the Wakely Consulting Group in Boston. Kingsdale addresses further opportunities for states including "market power and scale economies from combining individual and small-business exchange promote lower-cost health plans" (Kingsdale, 2012, p. 280). Although SHOs pose an oxymoron for small businesses because "they're going to have access to choices they haven't had before" (Kitces, 2013, p. 23) which can create confusion, consumers are going to be able to choose for themselves. It also presents entrepreneurs the opportunity to start their own business without fear of lack of health insurance coverage, thus creating growth and innovation for small businesses (Kitces, 2013).

ACA supporters highlight the carefully constructed regulations within the statute. ACA regulations require dominant insurers to participate in the small-business exchange. Jon Gabel, a nationally recognized expert on private health insurance states, the Center for Consumer Information and Insurance Oversight ensures that "insurers with a share of at least 20 percent in the small-group market to participate in the SHOs Marketplace as a condition for participating in the larger and potentially more profitable individual Marketplace in the same state" (Gabel, 2015, p. 734).

The ACA gives states the freedom to establish their own exchanges and risk-adjustment criteria to distribute health expenditures more fairly among enrollees. Johnathan Weiner, professor of health policy and management at John Hopkins Bloomberg School of Public Health, argues that by adopting the ACA's "diagnosis-based risk adjustment instead of the premium variation" (Weiner, 2012, p. 309) adjustment, which only factors age and smoking status, states

can “optimize the stability, efficiency, and equity of the exchanges for all stakeholders” (Weiner, 2012, p. 313).

It is projected that “by 2020 or sooner...most individuals working for small businesses will purchase insurance on their own through the state-level exchanges” established by the ACA (Miller, 2011, p. 540). The four levels of plans offered through the SHOPs provide “hope that significant cost-sharing for the more generous and more expensive (platinum) coverage plan will entice the majority of small employers to offer the less generous, lower-premium plans (bronze and silver), thus driving the overall premium rates down. ACA supporters advocate that the primary goals of making health care coverage accessible and affordable for everyone are being met.

Possible Complications

Supporters and opponents of the ACA predicted complications related to individual subsidies and small business tax credits. These complications resulted in lawsuits that reached the United States Supreme Court.

Nicholas Bagley is an assistant professor of law at the University of Michigan Law School, teaching and writing in the areas of health and administrative law and regulatory theory. Bagley explains that the ACA extends substantial “tax credits to anyone earning between one and four times the poverty level who buys a qualified health plan” on the exchange, “averaging about \$2,890 per person” (Bagley, 2015, p. 590). Lawsuits have been filed challenging the availability of those tax credits. The IRS “issued a rule extending tax credits to eligible individuals, whether or not their state established an exchange” (Bagley, 2015, p. 591) in 2012 and that rule has been challenged four times, including the most recent case, *King v. Burwell*. *King v. Burwell* focused “on whether the ACA allows the payment of federal subsidies to reduce

or eliminate premiums for plans sold through federally operated marketplaces” (Supreme Court Upholds ACA Subsidies section, 2015, para. 2).

Limiting tax credits to state-facilitated exchanges would distort health insurance risk pools and create potential threats to the survival and success of SHOPs. Without tax credits in federally-facilitated exchanges, healthy people would likely forgo coverage and sicker enrollees would likely remain in the market (Bagley, 2015). This would result in increased premiums due to the skewed distribution toward unhealthy enrollees, causing “the exchanges [to] stop working” (Bagley, 2015, p. 594).

The legislative and judicial branches of government were involved in the debate over individual subsidies and small business tax credits. In attempt to have states create their own exchange, Congress threatened states to set up their own exchange or they would “lose out on tax credits” (Bagley, 2015, p. 593). The ACA’s rather ambiguous statutory text involving tax credits created conflicting interpretations of the law. ACA opponents argue that Section 1401 of the ACA is unambiguous as it explicitly authorizes “tax credits only for insurance purchased through an exchange established by the State” (Adler, 2015, p. 586). However, the U.S. Supreme Court declared that “exchanges established by the State...refers generally to exchanges-including federally established exchanges” (p. 592) because “federally established exchanges *are* state exchanges” (Bagley, 2015, p. 593).

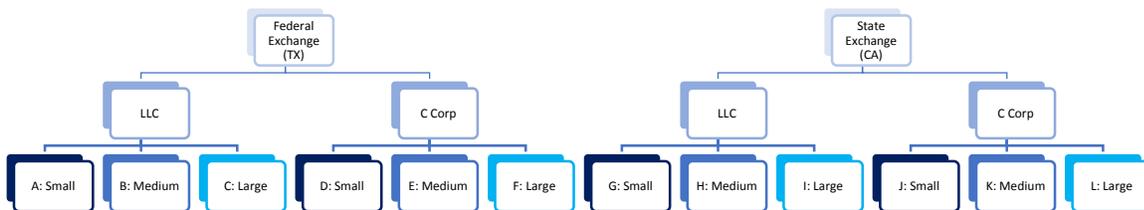
Supporters and opponents both predicted that individual subsidies and small business tax credits would be complex components of the ACA. However, with the Supreme Court’s ruling in *King v. Burwell*, business and individual tax credits are rewarded regardless of the type of insurance exchange and “are necessary for the Federal Exchanges to function like their state exchange counterparts” (Supreme Court Upholds ACA Subsidies section, 2015, para. 4).

Methods:

Hypothetical Company Design

I created twelve hypothetical breweries to perform a “what if” analysis to observe the implementation of the ACA’s employer mandate and its effects on each business. The businesses vary on three dimensions: type of exchange (federal or state), entity type (LLC or C corporation), and business size (small, medium, or large), measured as number of employees. I define a small business as having 10 employees, a medium business as having 24 employees, and a large business as having 50 employees. For simplicity, I used 50 employees for my large business, however, in reality, small businesses must have 49 or fewer FTEs to purchase coverage through the SHOPS. I use a business operating in Texas for one that would use a federal exchange, and a business operating in California for one that would use a state exchange. I chose to narrow my focus in the manufacturing industry and modeled my businesses as microbreweries. The layout is shown below in Figure 3.

Figure 3



According to the U.S. Census Bureau, manufacturing businesses have total annual

receipts of \$5,730 billion and roughly 11.192 million employees, generating \$511,992 of annual receipts per employee (Caruso, 2015). In 2013, the U.S. Census Fact Finder reported approximately \$210 million of health insurance expenses to employers from a total of about \$1.653 billion of payroll expenses. This averages to 12.7 percent of payroll expenses attributed to medical coverage for breweries (Annual, 2015). According to IBIS World's Craft Beer Production in the U.S., the "average industry profit currently stands at 8.2% of revenue [annual receipts]" (Petrillo, 2015, n.p.), before interest expenses. I use this data to structure the financial data for my small, medium, and large microbreweries.

Small Companies:

As shown in Figure 1, companies A, D, G, and J each have ten employees. Average annual revenue totals \$5,119,918. Microbreweries' earnings before interest and taxes are about 8.2 percent of revenue, or \$419,833. The average salary for an employee is \$32,293 (Caruso, 2015). Prior to the SHOPs, employer's cost for medical coverage totaled roughly \$4,102 annually per employee, for an annual cost of \$41,017.

Medium Companies:

As shown in Figure 1, companies B, E, H, and K each have twenty-four employees. Average annual revenue totals \$12,799,794. As assumed above, 8.2 percent of revenue, or \$1,049,583, accounts for the microbreweries' earnings before interest and taxes. The average salary for an employee is \$35,080, which was determined by averaging the salary of small and large companies (Caruso, 2015). Prior to the SHOPs, employer's cost for medical coverage totaled roughly \$4,456 annually per employee, totaling \$106,937 annually.

Large Companies:

As shown in Figure 1, companies C, F, I, and L each have fifty employees. Average annual revenue totals \$25,599,588, and earnings before interest and taxes are 8.2 percent of revenue, or \$2,099,166. The average salary for an employee is \$37,867 (Caruso, 2015). Prior to the SHOPs, employer's cost for medical coverage totaled roughly \$4,810 annually per employee, totaling an annual expense of \$240,485.

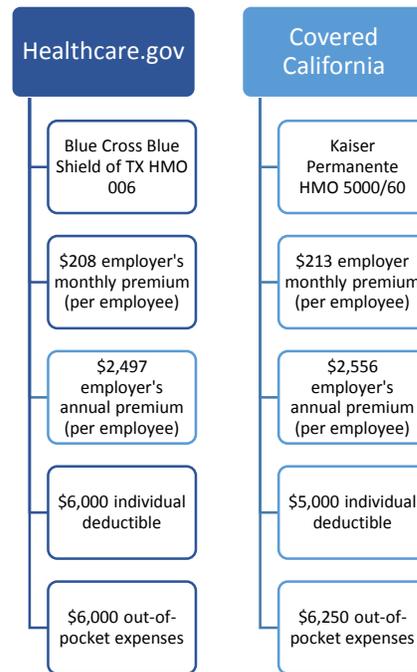
Small Business Health Options (SHOPs)

For this study, I examine Texas's federally-facilitated exchange, which is accessible on *healthcare.gov*, and California's state-facilitated health insurance exchange, *Covered California*. I reviewed relevant literature and consulted with two health insurance agents: Bart Tucker, Senior Vice President of the Fort Worth health insurance agency Roach Howard Smith and Barton; and Gina Crow, Vice President of Employee Benefit Sales and Consultant with Seldon Brusa Insurance Agency, Inc. in Lodi, CA. Based on my review and consultations, I concluded that small businesses do not prefer one health insurance plan to another on either exchange. Tucker says, "in speaking with our company [Roach Howard Smith and Barton] reps, no one is purchasing these plans" via the SHOPs (Tucker, 2015). Therefore, I selected two compatible bronze health insurance plans based on the estimated employer's monthly premium and individual deductible because bronze plans are more affordable to small business employers in comparison to silver, gold, or platinum plans.

Although *healthcare.gov* and *Covered California* offer several different health insurance plans by different providers for each metal tier, I chose one specific bronze plan from each exchange for the purpose of this study. Both plans are Health Maintenance Organization (HMO) plans "that usually limit coverage to care from doctors who work for or contract with the HMO"

(Health Maintenance Organization, 2015) and do not consider or cover dental expenses. To estimate the employer’s monthly premium cost, I made key assumptions, including the age of person(s) covered and their residing zip code. The health insurance plans are displayed in Figure 4 below.

Figure 4: Health Insurance Plans



Healthcare.gov:

Hypothetical companies A through F in Figure 3 are all aligned under a federally-facilitated exchange in Texas. *Healthcare.gov* provides the B650ADT Blue Advantage Bronze HMO 006 plan by BlueCross BlueShield of Texas. The estimated employer’s monthly premium is \$208 per employee, assuming the person covered is 30 years of age and resides in a 76110 zip code. The plan’s features consist of a \$6,000 deductible per individual, \$12,700 total family deductible, \$6,000 estimated out-of-pocket expenses per individual, and \$12,700 of estimated total family out-of-pocket expenses (BlueCross, 2015).

Covered California:

Hypothetical companies G through L in Figure 3 are aligned under a state-facilitated exchange in California. *Covered California* provides the Bronze 60 HMO 5000/60 plan by Kaiser Permanente. Assuming the covered persons are 30 years of age and reside in an area with a zip code of 94203, the estimated employer's monthly premium is \$213 per employee. The plan's features consist of a \$5,000 individual deductible, \$10,000 total family deductible, \$6,250 estimated individual out-of-pocket expenses, and \$12,500 estimated total family out-of-pocket expenses (Kaiser, 2015).

Results and Analysis:

Cost of Insurance and Company Earnings

Pre-ACA:

As discussed in the hypothetical company design in the methods section, the company's annual cost of medical insurance prior to the ACA was 12.7% of the company's total annual payroll. Evidence does not suggest all small businesses provided insurance pre-ACA, however it is noted that those who did provide coverage to employees paid on average 18% more than employers with 50 or more FTEs (Robertson, 2012). For pre-ACA and post-ACA comparison, I assume company's paid for their employee's health insurance. The annual cost of medical insurance therefore varies depending on the number of employees for each company. Prior to the ACA, a company with 10 employees paid about \$41,000 for medical insurance, a company with 24 employees paid about \$107,000, and a company with 50 employees paid about \$240,000. Regardless of the exchange or entity type, earnings before interest and taxes (EBIT) varies among the hypothetical companies based on the number of employees. The companies designed with 10 employees have an EBIT of roughly \$420,000. Companies with 24 employees had an EBIT of roughly \$1,007,000, and companies with 50 employees have an EBIT of roughly

\$2,099,000. By inflating each company’s earnings and adding the annual cost of medical insurance prior to the ACA, I valued the company’s earnings before interest, taxes, and medical expenses to compare each company’s EBIT pre-and post-ACA. Figure 5 below illustrates each company’s cost of medical insurance, EBIT, and EBIT and before medical expenses, prior to the ACA.

Figure 5: Cost of Insurance and Earnings Pre-ACA

Company Size	Small	Medium	Large
# of Employees	10	24	50
EBIT Pre-ACA	\$419,833	\$1,007,600	\$2,099,166
Annual Medical Insurance Expenses Pre-ACA	\$ 41,017	\$ 106,937	\$ 240,485
EBIT and Medical Expenses Pre-ACA	\$460,850	\$1,114,537	\$2,339,652

Post-ACA:

I next calculated the cost of medical insurance for the hypothetical companies assuming they purchased coverage through a federal (*Healthcare.gov*) or state (*Covered California*) exchange in the post-ACA period. The cost of medical insurance varies depending on the number of employees and type of exchange, but has no variance based on the entity type. I determined the cost of medical insurance post-ACA by taking the employer’s annual cost of medical insurance as presented in the Small Business Health Options in the methods section and multiplying it by the number employees. This is represented below in Figure 6.

Figure 6: Cost of Medical Insurance and Earnings Post-ACA

Type of Exchange	Federal			State		
Company Size	Small	Medium	Large	Small	Medium	Large
Annual Medical Expense Post-ACA	\$ 24,970	\$ 59,927	\$ 124,848	\$ 25,562	\$ 61,350	\$ 127,812
EBIT Post-ACA	\$435,881	\$1,054,610	\$2,214,804	\$435,288	\$1,053,187	\$2,211,840

There is roughly a 2% difference in the annual medical expense between federal and state exchanges. The 2% cost difference is small and is attributable to the difference in the selected insurance plans from *Healthcare.gov* and *Covered California*. By comparing the company’s

annual medical expenses pre- and post-ACA, I found that providing medical insurance via the federal or state exchange was roughly 38.4% less costly for companies with 10 employees, 43.3% less costly for companies with 24 employees, and 47.5% less costly for companies with 50 employees, assuming employers are providing the same medical insurance before and after the ACA. Evidence only suggests small employers are likely to purchase bronze plans, because the plans have the least expensive premiums (Understanding Marketplace, 2015).

EBIT post-ACA was calculated by adding the annual medical expense post-ACA to the company's earnings before interest, taxes, and medical expenses prior to the ACA and is depicted in Figure 2 above. All of the hypothetical companies had larger earnings before interest and taxes post-ACA due to the savings from purchasing medical insurance from the federal and state exchanges. On average, company earnings before interest and taxes were 3.8% greater for companies with 10 employees, 4.6% greater for companies with 24 employees, and 5.4% greater for companies with 50 employees, after purchasing medical insurance on the federal and state exchanges.

Small Employer Tax Credits:

As discussed in the literature review, employers with fewer than 25 employees may qualify for a credit that offsets the cost of insurance. The employer must provide its employees coverage through the federal or state exchange, contribute at least 50% toward its employees' premium payments, and meet the additional criteria as mentioned in the small employer tax credits section of the literature review. Assuming that these hypothetical companies contribute 100% of their employees' health insurance premium payments or the employer's annual medical expense, companies with fewer than 25 employees all qualify for a credit. My medium and large sized companies do not qualify for a tax credit because they exceed the employee limit or the

average salary exceeds the threshold. As stated, the credit amount works on a sliding scale depending on the number of employees and average employee salary. Figure 7 illustrates the value of the credit and net cost of insurance.

Figure 7: Credit and Net Cost of Insurance

Type of exchange	Federal		State	
State of Operation	TX		CA	
Company Size	Small	Medium	Small	Medium
# of Employees, N	10	24	10	24
Annual Medical Expense Post-	24969.6	59927	25562.4	61349.8
Estimated Tax Credit	\$ 9,140	\$ -	\$ 9,360	\$ -
Net Cost of Insurance Post-ACA	\$15,830	\$59,927	\$16,202	\$61,350

There is a 2% difference in the credit between the federal and state exchanges which is attributed to the cost difference in the health insurance plan selected from *Healthcare.gov* and *Covered California*. The net cost of insurance is calculated by reducing the employer’s annual medical expense post-ACA by the estimated credit. The credit reduces the cost of insurance by roughly 37% for small companies. The net cost of insurance is equal to the annual medical expenses post-ACA for all other companies because they did not qualify or were ineligible to receive a credit. The net cost of insurance is the total amount of premiums paid and used as the cost of business’ employee benefit programs reported on Line 24 on Form 1120 which is used for the remainder of this analysis.

Tax Assessment

LLC:

Single owner LLCs are taxed as sole proprietorships. The owner reports the LLC’s business income on *Schedule C* because the LLC’s business income flows directly to the individual owner. To determine the amount of business income reported by the owner, the LLC subtracts business expenses, which include the cost of employee benefits and deductible taxes,

from the LLC's gross income. For this study, I assume EBIT post-ACA is equal to the LLC's gross income, and the net cost of insurance post-ACA is equal to the cost of employee benefits. Franchise fees and LLC fees are also subtracted from the LLC's gross income to determine the business income reported on the owner's *Schedule C*.

In Texas, a franchise tax is imposed on limited liability businesses for the privilege of conducting business in the state. To determine the franchise fee on the LLCs operating in Texas, 70% of the company's average annual receipts were calculated and multiplied by the tax rate of 0.95%. The franchise fee varies based on the LLC's average annual receipts.

In California, LLCs are required to pay a minimum LLC tax of \$800, as well as an LLC fee that is based on a company's total taxable income. The fee is \$900 if the total taxable income ranges from \$250,000 to \$499,999, and is \$6,000 if the total taxable income ranges from \$1 million to \$4.999 million (State of California Franchise Tax Board, 2015). Figure 8 below represents the LLC's profits and business income for the single LLC owner. Business income is about 7.5% less in Texas than in California and is attributed to the larger franchise fees.

Figure 8: LLC Net Profits and LLC Owner's Business Income

Entity	LLC					
	Federal			State		
Type of exchange	TX			CA		
State of Operation	TX			CA		
Company Size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Avg. Annual Receipts	\$5,119,918	\$12,287,802	\$25,599,588	\$5,119,918	\$12,287,802	\$25,599,588
EBIT Post-ACA	\$ 435,881	\$ 1,054,610	\$ 2,214,804	\$ 435,288	\$ 1,053,187	\$ 2,211,840
Employee Benefit Program (Net cost of Insurance)	\$ 15,830	\$ 59,927	\$ 124,848	\$ 16,202	\$ 61,350	\$ 127,812
Franchise Fee (TX), LLC Tax (CA)	\$ 34,047	\$ 81,714	\$ 170,237	\$ 800	\$ 800	\$ 800
LLC Fee (Only in CA)	n/a	n/a	n/a	\$ 900	\$ 6,000	\$ 6,000
Schedule C Earnings & Business Income	\$ 386,004	\$ 912,969	\$ 1,919,718	\$ 417,386	\$ 985,037	\$ 2,077,228

Single LLC owners are considered self-employed and 92.35% of their business income is subject to self-employment tax. As discussed earlier, the owner must pay 12.4% for social security taxes and 2.9% for Medicare; however the threshold for social security wages in 2015

was \$118,500. Although the owner’s earnings may exceed the social security threshold, as in the case for my hypothetical LLC owners, the owner is only taxed 12.4% on \$118,500. The sum of Social Security and Medicare tax is equal to the amount self-employment taxes paid by the owner. One-half of the owner’s self-employment tax is deducted when determining the owner’s adjusted gross income (AGI). For this analysis, I assume that the owner’s only income is the LLC’s business income. Figure 9 below illustrates the LLC owner’s AGI. As previously discussed, AGI is roughly 7.5% greater in California because total income is greater.

Figure 9: LLC Owner’s Adjusted Gross Income (AGI)

Type of exchange State of Operation	Federal TX			State CA		
	Small	Medium	Large	Small	Medium	Large
Company Size # of Employees, N	10	24	50	10	24	50
Owner's Total Income	\$ 386,004	\$ 912,969	\$ 1,919,718	\$ 417,386	\$ 985,037	\$ 2,077,228
Net Earnings Subject to Self-Employment Tax	\$ 356,475	\$ 843,127	\$ 1,772,860	\$ 385,456	\$ 909,682	\$ 1,918,320
Social Security Tax	\$ 14,694	\$ 14,694	\$ 14,694	\$ 14,694	\$ 14,694	\$ 14,694
Medicare Tax	\$ 10,338	\$ 24,451	\$ 51,413	\$ 11,178	\$ 26,381	\$ 55,631
Self-Employment Tax	\$ 25,032	\$ 39,145	\$ 66,107	\$ 25,872	\$ 41,075	\$ 70,325
Half SE Tax	\$ 12,516	\$ 19,572	\$ 33,053	\$ 12,936	\$ 20,537	\$ 35,163
AGI	\$ 373,488	\$ 893,397	\$ 1,886,665	\$ 404,450	\$ 964,500	\$ 2,042,065

Next, the owner must determine his or her annual taxable income to determine total tax liability. The standard or itemized deduction and personal exemption are subtracted from the owner’s AGI to determine taxable income. For my analysis, I assume that the owner will take the standard deduction of \$6,300. The personal exemption is \$4,000, but phases out by 2% for each \$2,500 that AGI exceeds \$258,250 for single filers. The phase-out ends if the single filer’s AGI exceeds \$380,750, resulting in a \$0 personal exemption (TPC Press Room, 2015). The LLC owner’s taxable income is equal to his or her AGI minus the standard deduction and personal exemption. This taxable income is shown in Figure 10. On average, taxable income is 7.6% less

in Texas than in California because the hypothetical Texas owners have less income and ultimately smaller AGI.

To determine the federal income taxes owed by the LLC owner, I applied the tax rates discussed in the background section to the owner’s taxable income. Federal income taxes owed by the LLC owners in Texas are roughly 8.5% less than those owed in California. This difference is due to the difference in taxable income.

Figure 10: LLC Owner’s Taxable Income

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company Size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Standard Deduction	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300
Personal Exemption	\$ 320	\$ -	\$ -	\$ -	\$ -	\$ -
Taxable Income	\$ 366,868	\$ 887,097	\$ 1,880,365	\$ 398,150	\$ 958,200	\$ 2,035,765
Federal Income Tax	\$ 104,673	\$ 307,659	\$ 700,994	\$ 114,996	\$ 335,816	\$ 762,532

In addition to federal income taxes, California residents must pay a state income tax. The owner must use a California Resident Income Tax Return, *Form 540*, to compute his or her state taxable income. Once again, I assume the owner will take the standard deduction. By subtracting the California standard deduction of \$3,992 from the owner’s federal AGI as computed in Figure 6, the owner can determine his or her state taxable income. Using the California tax rate schedule discussed in the background section above, I determined the amount of state income tax liability. Personal exemption credits can reduce tax liability; however with AGI in excess of \$176,413, the owner must complete the *AGI Limitation Worksheet* because the credit phases out. In the case of these hypothetical companies, the credit is phased out to \$0 because the owner’s AGI exceeds the threshold. A mental health services tax of 1% is assessed on the owner’s taxable income exceeding \$1 million. The owner of Company I is the only LLC owner who will have to pay the

mental health services tax, which totals \$10,380. Figure 11 below details the amount of state taxable income and taxes owed by LLC owners in California.

Figure 11: California Taxable Income and Tax Liability

Type of exchange	State		
State of Operation	CA		
Entity Type	LLC		
Company Size	Small	Medium	Large
# of Employees, N	10	24	50
AGI	\$ 404,450	\$ 964,500	\$ 2,042,065
CA Standard Deduction	\$ 3,992	\$ 3,992	\$ 3,992
State Taxable Income	\$ 400,458	\$ 960,508	\$ 2,038,073
Mental Health Services Tax	\$ -	\$ -	\$ 10,380.73
State Income Tax	\$ 36,937	\$ 104,564	\$ 247,485

Starting in 2013, for federal purposes, an additional 0.9% Medicare tax is imposed on wages and self-employment income above a threshold. In 2015, the threshold was \$200,000 for single filers; therefore LLC owners whose business income exceed the threshold must pay the additional Medicare tax. By first subtracting \$200,000 from the LLC owner’s business income and then multiplying by 0.9%, I determined the additional Medicare tax on the LLC owner’s self-employment income. Figure 12 details the amount of the additional Medicare tax for each of the LLCs.

Figure 12: Additional Medicare Tax on Self-Employment Income for LLC Owners

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company Size	Small	Medium	Large	Small	Medium	Large
Total Income	\$ 386,004	\$ 912,969	\$ 1,919,718	\$ 417,386	\$ 985,037	\$ 2,077,228
Threshold	\$ (200,000)	\$ (200,000)	\$ (200,000)	\$ (200,000)	\$ (200,000)	\$ (200,000)
Income Subject to Tax	\$ 186,004	\$ 712,969	\$ 1,719,718	\$ 217,386	\$ 785,037	\$ 1,877,228
Additional Medicare Tax Rate	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Additional Medicare Tax Due	\$ 1,674.03	\$ 6,416.72	\$ 15,477.46	\$ 1,956.47	\$ 7,065.34	\$ 16,895.05

To determine the total amount of taxes paid by each LLC owner, I added the self-employment tax, franchise fee, LLC tax and fee, additional Medicare tax on self-employment

income, and federal and state income tax liabilities. Figure 13 below shows the total taxes owed by each LLC owner.

Figure 13: Total Taxes Due

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Self-Employment Tax	\$ 25,032	\$ 39,145	\$ 66,107	\$ 25,872	\$ 41,075	\$ 70,325
Franchise Fee/LLC Tax	\$ 34,047	\$ 81,714	\$ 170,237	\$ 800	\$ 800	\$ 800
LLC Fee (Only in CA)	n/a	n/a	n/a	\$ 900	\$ 6,000	\$ 6,000
Additional Medicare Tax Due	\$ 1,674	\$ 6,417	\$ 15,477	\$ 1,956	\$ 7,065	\$ 16,895
Federal Income Tax	\$ 104,673	\$ 307,659	\$ 700,994	\$ 114,996	\$ 335,816	\$ 762,532
State Income Tax (Only in CA)	n/a	n/a	n/a	\$ 36,937	\$ 104,564	\$ 247,485
Total Taxes Due	\$ 165,426	\$ 434,935	\$ 952,815	\$ 181,462	\$ 495,320	\$ 1,104,037

LLC owners in Texas with 10 employees paid roughly 8.8% less in taxes than those in California. LLC owners located in Texas with 24 employees paid about 12.2% less in taxes than owners in California. And LLC owners in Texas with 50 employees paid approximately 13.7% less in taxes than similar owners in California. Overall, LLC owners pay, on average, 11.6% more in taxes by operating in California rather than in Texas because of the California state income tax imposed on residents.

C Corporation:

C corporations are subject to double taxation. The corporation is taxed on business income, and owners pay tax on any dividends that the company makes. The company cannot deduct these dividends for tax purposes. For this study, I assume a corporation with 10 employees pays a salary of 30% of the corporation's EBIT post-ACA, a corporation with 24 employees pays a salary of 20%, and a corporation with 50 employees pays a salary of 10% of the corporation's EBIT post-ACA. The corporation is required to withhold payroll taxes from salaries, known as Federal Insurance Contributions Act, or FICA taxes. FICA taxes are comprised of a 6.2% social security tax and a 1.45% Medicare tax. Social security tax has a base

limit of \$118,500; therefore, if the employee’s salary exceeds \$118,500, as in the case for these hypothetical officers, he or she is only assessed a 6.2% tax on \$118,500. The corporation and the employee must both pay the tax, totaling 12.2% on \$118,500 and 2.9% on the officer’s full salary amount. Figure 14 below details the salary paid to the officer and the FICA tax amount owed by the corporation and the employee.

Figure 14: Owner’s Salary and FICA Taxes

Entity	C corporation					
	Federal			State		
Type of exchange	TX			CA		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
EBIT Post ACA	\$ 435,881	\$ 1,054,610	\$ 2,214,804	\$ 435,288	\$ 1,053,187	\$ 2,211,840
Owner's Salary	\$ 130,764	\$ 210,922	\$ 221,480	\$ 130,586	\$ 210,637	\$ 221,184
Employer's FICA Tax on Salary	\$ 9,243	\$ 10,405	\$ 10,558	\$ 9,241	\$ 10,401	\$ 10,554
Owner's FICA Tax on Salary	\$ 9,243	\$ 10,405	\$ 10,558	\$ 9,241	\$ 10,401	\$ 10,554

There is no significant difference between salaries paid by C corporations of similar size operating in Texas as opposed to California because of similar earnings post-ACA.

C corporations must also pay state taxes to the states in which they operate. Texas imposes the franchise tax on corporations like it does LLCs, and California imposes a corporate income tax. Texas’s franchise tax is calculated by first taking 70% of the corporation’s annual receipts and then multiplying it by the tax rate of 0.95%. California’s corporate income tax is 8.84% of the corporation’s net income. I used the corporation’s EBIT post-ACA to determine the corporation’s taxable income, and then multiplied it by 8.84% to calculate the corporate tax amount. Figure 15 below details the franchise fee and corporate tax owed by the C corporations.

Figure 15: Franchise Fee and Corporate Taxes Owed by C Corporations

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
EBIT Post ACA	\$ 435,881	\$ 1,054,610	\$ 2,214,804	\$ 435,288	\$ 1,053,187	\$ 2,211,840
Franchise Fee (In TX only)	\$ 34,047	\$ 81,714	\$ 170,237	n/a	n/a	n/a
Corporate Tax (In CA only)	n/a	n/a	n/a	\$ 38,479	\$ 93,102	\$ 195,527

Although the Texas franchise fee of 0.95% is applied to a larger taxable base (i.e., 70% of the company's annual receipts), the 8.84% corporate tax rate in California resulted in corporations paying, on average, 12.2% more in state corporate taxes than the corporations in Texas.

To compute the C corporation's taxable income, I subtracted the following amounts from the corporation's EBIT post-ACA: the salary paid to the officer, FICA taxes owed by the employer, the franchise fee or corporate tax owed by the corporation, and the costs of employee benefits. The net cost of insurance post-ACA is used to determine the cost of employee benefits. Figure 16 below details the calculation and amount of taxable income for each corporation.

Figure 16: Taxable Income for C Corporations

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
EBIT Post ACA	\$ 435,881	\$ 1,054,610	\$ 2,214,804	\$ 435,288	\$ 1,053,187	\$ 2,211,840
Owner's Salary	\$ 130,764	\$ 210,922	\$ 221,480	\$ 130,586	\$ 210,637	\$ 221,184
Employer's FICA Tax on Salary	\$ 9,243	\$ 10,405	\$ 10,558	\$ 9,241	\$ 10,401	\$ 10,554
Franchise Fee (In TX only)	\$ 34,047	\$ 81,714	\$ 170,237	n/a	n/a	n/a
Corporate Tax (In CA only)	n/a	n/a	n/a	\$ 38,479	\$ 93,102	\$ 195,527
Net Cost of Insurance Post ACA	\$ 15,830	\$ 59,927	\$ 124,848	\$ 16,202	\$ 61,350	\$ 127,812
Taxable Income	\$ 245,996	\$ 691,642	\$ 1,687,679	\$ 240,779	\$ 677,697	\$ 1,656,763

Taxable income for C corporations in Texas is roughly 2% more than in California. This difference is attributed to the smaller amount owed in franchise fees in Texas as opposed to the larger corporate tax liability in California.

C corporations will complete *Form 1120*, and the taxable income stated in Figure 13 will be reported on line 30. To determine the C corporation's federal income tax liability, I applied the tax rate from the corporate tax rate schedule shown in the background section above to the C corporations' taxable income. By adding the employer's FICA tax paid on the employee's salary, franchise fee or corporate tax, and the federal income tax due, I calculated the C corporations' total tax liability. Figure 17 below details the federal income tax and total taxes paid by the C corporation.

Figure 17: C Corporation Income Tax and Total Taxes Paid

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
C corporation's Federal Income Tax Due	\$ 80,065	\$ 235,158	\$ 573,811	\$ 77,999	\$ 230,417	\$ 563,299
Total Taxes Paid by C corporation	\$ 123,355	\$ 327,277	\$ 754,607	\$ 125,719	\$ 333,920	\$ 769,380

C corporations in California paid roughly 1.9% more in total taxes than those in Texas because of the larger corporate tax rate detailed in Figure 15.

Using the C corporation's taxable income, I assumed the C corporations issued the shareholder a dividend equal to 10% of the C corporation's taxable income. By adding the employee's salary and dividend, I determined the owner's AGI assuming he or she had no other source of income. Figure 18 details these amounts that the owner will report on *Form 1040*.

Figure 18: Owner's Dividend, Total Income, and AGI

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Owner's Salary	\$ 130,764	\$ 210,922	\$ 221,480	\$ 130,586	\$ 210,637	\$ 221,184
Owner's Dividend	\$ 24,600	\$ 69,164	\$ 168,768	\$ 24,078	\$ 67,770	\$ 165,676
Owner's Total Income and AGI	\$ 155,364	\$ 280,086	\$ 390,248	\$ 154,664	\$ 278,407	\$ 386,860

There is no significant difference between the owner's AGI in Texas or California.

The analysis from this point forward is from the standpoint of the owner's completion of his or her individual income tax return and is similar to the analysis computed for LLC owners in the previous section.

The owner must pay FICA taxes on his or her salary as discussed earlier. An additional 0.9% Medicare tax is imposed on the owner's salary exceeding \$200,000. Only owners of the medium and large hypothetical companies earn a salary greater than \$200,000. Since all owners of these C corporations received a dividend, and dividends are considered net investment income, the owners are also subject to a 3.8% Medicare contribution tax on net investment income. The tax is assessed on the lesser of net investment income, which would be the dividend received, or the excess of AGI over \$200,000. Since the owner's net investment income is less than the excess of AGI over the threshold, a 3.8% tax is applied to the dividend received. I assume that the dividends received are considered qualified dividends and subject to favorable rate of 0, 15, or 20%. The rate is determined by an individual's tax bracket. Since all of these owners have a marginal tax rate of 28% or 33%, their qualified dividends are subject to a 15% tax. Figure 19 details the owner's FICA taxes, the 0.9% additional Medicare tax, the 3.8% Medicare tax on net investment income, and the 15% tax on qualified dividends.

Figure 19: Owner's Taxes

Type of exchange State of Operation	Federal			State		
	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Owner's Salary	\$ 130,764	\$ 210,922	\$ 221,480	\$ 130,586	\$ 210,637	\$ 221,184
Owner's Dividend	\$ 24,600	\$ 69,164	\$ 168,768	\$ 24,078	\$ 67,770	\$ 165,676
Owner's FICA Tax on Salary	\$ 9,243	\$ 10,405	\$ 10,558	\$ 9,241	\$ 10,401	\$ 10,554
Additional 0.9% Medicare Tax on Salary	\$ -	\$ 98	\$ 193	\$ -	\$ 96	\$ 191
3.8% Medicare Contribution Tax on Dividend	\$ 935	\$ 2,628	\$ 6,413	\$ 915	\$ 2,575	\$ 6,296
Tax on Qualified Dividend	\$ 3,690	\$ 10,375	\$ 25,315	\$ 3,612	\$ 10,165	\$ 24,851

To compute the owner's taxable income, I subtracted the standard deduction of \$6,300 and personal exemption from the employee's AGI. The personal exemption is \$4,000, but as discussed above, phases out to 0 because of the owner's high level of AGI. Figure 20 shows the owner's taxable income that is reported on *Form 1040*.

Figure 20: Owner's Taxable Income

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Owner's AGI	\$ 155,364	\$ 280,086	\$ 390,248	\$ 154,664	\$ 278,407	\$ 386,860
Standard Deduction	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300
Personal Exemption	\$ 4,000	\$ 3,301	\$ -	\$ 4,000	\$ 3,355	\$ -
Taxable Income	\$ 145,064	\$ 270,485	\$ 383,948	\$ 144,364	\$ 268,752	\$ 380,560

On average, taxable income in Texas is 0.67% greater than in California because the owner's AGI is slightly greater in Texas.

To determine the owner's federal income tax liability, I applied the tax rates listed in the background section above. Figure 21 shows the owner's federal tax liability.

Figure 21: Owner's Federal Income Tax Owed

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Taxable Income	\$ 145,064	\$ 270,485	\$ 383,948	\$ 144,364	\$ 268,752	\$ 380,560
Federal Tax on Income	\$ 40,095	\$ 89,762	\$ 134,694	\$ 39,818	\$ 89,076	\$ 133,352

Employees of C corporations in Texas paid on average 0.8% more in federal income taxes than those in California because of the slightly higher taxable income.

California employees are subject to the state income tax in addition to federal income taxes and must file a California Resident Income Tax Return, *Form 540*. I again assume that the owner will take the standard deduction. By subtracting the California standard deduction of \$3,992 from the owner's federal AGI computed in Figure 15, the owner can determine his or her

state taxable income. Using the California tax rate schedule from Figure A, I determined the state income tax liability. Personal exemption credits can reduce tax liability; however with AGI in excess of \$176,413, the owner must complete the *AGI Limitation Worksheet* because the credit phases out. Only the owner of the small hypothetical company qualifies for the \$108 personal exemption credit, which directly offsets his or her state income tax owed. Employees of the medium and large companies have AGIs that exceed the phase out limit. Figure 22 below details the state income tax owed by each C corporation owner.

Figure 22: California Income Tax Liability for C Corporation Owners

Type of exchange	State		
State of Operation	CA		
Company size	Small	Medium	Large
# of Employees, N	10	24	50
Owner's Federal AGI	\$ 154,664	\$ 278,407	\$ 386,860
CA Standard Deduction	\$ (3,992)	\$ (3,992)	\$ (3,992)
CA Taxable Income	\$ 150,672	\$ 274,415	\$ 382,868
Personal Exemptions	\$ (108)	\$ -	\$ -
State Income Tax	\$ 11,381	\$ 22,997	\$ 33,083

To calculate the total taxes paid by the owner, I added the owner's FICA taxes, additional 0.9% Medicare tax, 3.8% Medicare contribution tax on net investment income, 15% tax on qualified dividends, federal income tax liability, and state income tax liability. Figure 23 details the total taxes owed by the owner.

Figure 23: Total Taxes Owed by C Corporation Owners

Type of exchange	Federal			State		
State of Operation	TX			CA		
Company size	Small	Medium	Large	Small	Medium	Large
# of Employees, N	10	24	50	10	24	50
Owner's FICA Tax on	\$ 9,243	\$ 10,405	\$ 10,558	\$ 9,241	\$ 10,401	\$ 10,554
Additional 0.9% Medicare Tax on Salary	\$ -	\$ 98	\$ 193	\$ -	\$ 96	\$ 191
3.8% Medicare Contribution Tax on	\$ 935	\$ 2,628	\$ 6,413	\$ 915	\$ 2,575	\$ 6,296
Tax on Qualified	\$ 3,690	\$ 10,375	\$ 25,315	\$ 3,612	\$ 10,165	\$ 24,851
Federal Tax on Income	\$ 40,095	\$ 89,762	\$ 134,694	\$ 39,818	\$ 89,076	\$ 133,352
State Income Tax	n/a	n/a	n/a	\$ 11,381	\$ 22,997	\$ 33,083
Owner	\$ 53,963	\$ 113,269	\$ 177,174	\$ 64,966	\$ 135,311	\$ 208,327

On average, owners of C corporations in California paid 16.1% more in total taxes than similar owners in Texas. California's state income tax causes this difference. Roughly 16.8% of the total tax owed by owners in California is attributed to the amount paid in state income taxes.

Discussion:

Conclusion from Results and Analysis

Pre-ACA employers provided health insurance to employees and purchased coverage directly from insurance providers or insurance agencies, assuming employers offered health insurance. The ACA created employer mandates, forcing some employers to provide medical insurance to employees or pay a penalty. I created 12 hypothetical companies and required each employer to provide health insurance to its employees, regardless if they were required to by law based on the company size or not. By researching and selecting a bronze health insurance plan on *Healthcare.gov* for hypothetical companies operating in Texas and on California's state-facilitated exchange, *Covered California*, I was able to calculate the net cost of insurance for employers pre- and post-ACA. Annual medical expenses post-ACA were similar for employers regardless of the exchange the plan was purchased from, resulting in a small 2% difference. The

number of employees for each hypothetical company only impacted the total cost of insurance pre- and post-ACA and the eligibility and amount of the tax credit. Entity type had no effect.

From my findings, all the health insurance plans offered on the federal and state-facilitated exchanges offered similar coverage and benefits. Although, no two plans were identical, the dollar differences in the plans used for my analysis were not significant. The consistent health insurance plan offerings allowed for equal cost savings opportunities to employers and did not vary based on entity type. Assuming these hypothetical employers purchased health insurance directly from the insurance provider prior to the ACA and that costs were equal to the industry averages, purchasing health insurance over the federal and state exchanges provided significant cost savings. I found annual medical expenses post-ACA to be roughly 43% less costly than pre-ACA medical expenses. Cost savings from health insurance resulted in greater company earnings before interest and taxes. Employer tax credits resulted in even greater cost savings for my hypothetical companies with only 10 employees because the credit directly offset the cost of health insurance. Hypothetical companies with 10 employees experienced a 61% cost savings by purchasing health insurance from the exchange and receiving the small employer tax credit.

By classifying 6 of my hypothetical companies as LLCs and 6 as C corporations, I compared the cost savings of health insurance from the exchange to the individual owner, the corporation and the C corporation employee. The cost savings from health insurance purchased on either the federal or state exchange resulted in lower health insurance costs for company employees, ultimately increasing business income reported by the LLC owner on his/her *Schedule C*. Greater income resulted in a larger AGI and taxable income to the LLC owner. Large AGIs either limited or phased-out personal exemptions for all of the hypothetical LLC

owners on both their federal and state tax returns. Additionally, AGIs in excess of \$200,000 were faced with the 0.9% additional Medicare tax. Overall, the cost savings from medical expenses caused the LLC owner to pay more in total taxes. From this study, it is undetermined if the cost savings from purchasing health insurance over the federal or state-facilitated exchange outweigh the increased tax burden faced by the LLC owner.

Hypothetical companies aligned as C corporations reported lower costs for employee benefits on the corporation's *Form 1120*, increasing the corporation's taxable income by 43%. This resulted in greater federal and state tax liability for the corporation. The C corporation owner faced similar outcomes as the LLC owner, including increased tax liabilities. Due to the large difference in income reported by the LLC owner and the C corporation owner, comparing taxes liabilities does not provide particularly useful insights. In this study, LLC owners reported income 70% greater than the C corporation employee.

Overall, businesses operating in California faced greater tax liabilities than those in Texas because of the state income tax. LLC owners in California paid on average 11.6% more in taxes than owners in Texas, and C corporation owners in California paid 16.1% more in taxes than owners in Texas.

Limitations

This study was based on the following assumptions:

- Hypothetical company data:
 - Based on historical manufacturing and microbrewery data and industrial averages.
 - My “large” companies had 50 employees to simplify calculations, however, small businesses must have 49 or fewer employees to purchase coverage from the SHOPS.
- Entities:
 - LLCs were owned by one individual, and thus taxed as a sole proprietorship. The LLC would be taxed as a partnership if the LLC had multiple members.
 - C corporations were owned by one individual, who was also an employee of the company.

- Small LLC owners earned a salary of 30% of EBIT post-ACA and a divided of 10% of the LLC's earnings minus the owner's salary and FICA taxes, medium LLC owners earned a salary of 20% of EBIT post-ACA and a divided of 10% of the LLC's earnings minus the owner's salary and FICA taxes, large LLC owners earned a salary of 10% of EBIT post-ACA and a divided of 10% of the LLC's earnings minus the owner's salary and FICA taxes.
- Exchanges:
 - I chose to use *Covered California* for my selected state-facilitated exchange. Choosing an alternative state-facilitated exchange could impact the state income taxes owed by the LLC owner, C corporation, and C corporation employee
- Health insurance plan:
 - Annual medical cost to the employer is limited to the specific bronze plan selected. Expenses could significantly change if companies provided a more extensive plan such as a gold or platinum plan.
 - Selected health insurance plan dictated the companies EBIT post-ACA
 - Study assumed the employer covered 100% of the employee's medical premium payments in both the pre-ACA and post-ACA periods.
 - Assumed companies provided health care to employees pre-ACA and similar plans in terms of coverage.
- Tax assessment:
 - Study only examined tax liabilities of the business and its one individual owner
 - Study assumed the individual took the standard deduction and did not itemize. Having the individual claim the standard deduction rather than itemize results in an upper-bound estimate of owner's tax liability. Taking the itemized deduction could reduce the owner's taxable income and total taxes owed.
- Income:
 - Assumed the individual had no other income than what was earned from the LLC or C corporation.

Altering any of the assumptions and data used could potentially change the results and analysis.

Additional limitations include the tax impacts for LLC owners and C corporation employees. Due to the 70% variation in total income reported by each filer, comparing taxes owed for each filer is not possible. Therefore, it is undetermined which entity yielded greater benefits from a tax stand point by obtaining health insurance from the federal or state-facilitated exchange.

Future Studies

From my findings, I would like to suggest further studies. It is undetermined if the increased tax liability faced by the LLC and C corporation owners exceeds the cost savings from net cost of insurance post-ACA. To analyze this inquiry, taxable income pre-ACA must be determined.

Additionally, I would like to assess if the penalty for applicable large employers not providing health care coverage to employees is more cost effective than providing insurance to employees via the exchanges or directly from insurance brokers. I would also like to examine the change, if any, in the net cost of insurance post-ACA from this study to the cost in the next 5 to 10 years.

The ACA's impacts extend far beyond the SHOPs. I would like to assess the cost to individuals and the impact from a tax standpoint if he or she were to purchase health insurance from the individual exchange if their employer did not provide them with insurance. By comparing the cost of insurance the employer pays per employee and the individual cost, one can determine if the SHOPs and individual exchanges provide comparable offerings and pricings.

Conclusion and Implications:

The ACA was passed on March 23, 2010, encompassing a wide range of policies and procedures. Health insurance exchanges were created allowing small businesses to compare and purchase coverage for their employees. These SHOPs were created for employers to purchase affordable group plans and claim tax credits. The SHOPs were open to employers with up to 50 full time employees through 2015. However, employers with up to 100 full time employees will have access to the SHOPs in 2016.

Supporters of the ACA highlight the success of SHOPs and their growth as a health insurance marketplace. Opponents, however, highlight the SHOPs disadvantages including lack of popularity, inequity, and difficult accessibility. This study allowed me to access the SHOPs and navigate the options available to employers. Based on my findings, the available health insurance plans were consistent across both federal and state exchanges, the two entity types, LLCs and C corporations, and number employees.

My findings lead me to conclude that the net cost of health insurance for employers was significantly more cost effective post-ACA. The employer's savings from health insurance premiums resulted in greater company earnings, while increasing LLC and C corporation owner's taxable income. LLCs and C corporations operating in California with a state-facilitated exchange were faced with greater tax liabilities than those operating in Texas with a federally-facilitated exchange because of the California state income tax. It is undetermined if the increased tax liability exceeds the cost savings from purchasing coverage via the exchanges.

Although some business owners, employers, and employees may disagree with the purpose of the ACA, it is advisable to scrutinize the options the ACA provides, particularly for small businesses. Health care is essential to many and therefore, consumers should be well-informed of their options.

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