



## **The Small Business Health Insurance Option (SHOP) for Small Employers**

### **Issue Brief**

**(Updated 11/6/14)**

The Patient Protection Affordable Care Act (ACA) created the small business healthcare tax credit and included incentives for small employers that either offer health coverage for the first time or to maintain their existing health coverage. The Small Business Health Options Program (SHOP) Marketplace is designed to simplify the process of buying health insurance for small businesses. This Issue Brief will discuss how small businesses will benefit from the SHOP program.

### **Enrolling For Coverage through the SHOP Marketplace**

In November 2014, small business owners with 50 or fewer full-time equivalent employees can purchase health insurance for coverage beginning in 2015. They can apply, compare plans, and enroll in a SHOP plan directly online. Small business owners can also authorize health insurance agents and brokers registered with the SHOP Marketplace who will have access to special online features to make it easier for them to assist small business owners to apply, choose coverage, enroll, and manage their health coverage.

If small business owners already offered a SHOP health benefits plan to their employees in 2014, they will renew their SHOP coverage online themselves and they will not be able to work directly with an insurance broker to renew. Once small business owners make an online offer of health coverage to their employees, the employees will also have to renew or change their coverage online. Small business owners will also have to give their employees at least one week to decide if they want to accept their employer's offer for 2015 SHOP coverage. If employees enroll by December 14, 2014, their coverage can take effect on January 1, 2015.

In January 1, 2016, the program will be expanded to include businesses with less than 100 or fewer full-time equivalent employees.

## **Small Business Healthcare Tax Credit**

Many small businesses will receive a more generous tax credit in 2014 if they offer their employees a qualified health plan through the SHOP in their states. Employers will not need to wait to hear back from the SHOP Marketplace about their eligibility before enrolling, but if they want to apply for the Small Business Health Care Tax Credit, they will need to get a notice of their SHOP eligibility before they file their returns for tax year 2014.

Small businesses that buy coverage through the SHOP Marketplace may also qualify for a tax credit worth up to 50 percent of their contributions to employee premium costs, and up to 35 percent for tax-exempt employers.

Small employers with less than 25 employees are not required to offer health insurance to their employees and will not be penalized if they choose not to offer coverage.

The SHOP Marketplace offers small businesses a variety of Qualified Health Plans (QHPs) that will allow employers and employees to choose insurance that meets their budgets. Some of the benefits for employers are as follows:

- The SHOP Marketplace will provide side-by-side comparisons of Qualified Health Plans, benefits, costs and quality.
- The SHOP Marketplace will allow small business employers to offer workers Qualified Health Plans from several insurers, just like larger employers.
- Small Business employers control when they participate as well as their own level of contribution toward coverage. SHOPS allow businesses to make a single monthly payment via SHOP rather than to multiple plans. (For plan years starting in 2014, employers will make premium payments directly to insurance companies. For plan years beginning on or after January 1, 2015, employers will make their premium payments through the SHOP. )
- Small Businesses may be eligible for tax credits and subsidies on the SHOP.

## **Small Business Healthcare Tax Credit Eligibility**

Small businesses meeting certain characteristics are eligible for a Small Business Health Care Tax Credit as a result of using the Shop Marketplace. Employers must obtain an official eligibility determination from the SHOP Marketplace and must claim the tax credit by including the SHOP eligibility notice when submitting federal income tax returns. Employers will need to have their SHOP eligibility notice from the SHOP Marketplace in order to claim the credit.

To be eligible for the credit, employers must have fewer than 25 full-time equivalent employees, pay an average wage of less than \$50,000 a year per employee and pay at least half of employee

health insurance premiums (for full-time employees only). Small businesses can apply for tax credits to cover up to 50 percent of premium costs of low to moderate wage employees when the SHOP Marketplaces open.

For tax years 2010 through 2013, the maximum credit is 35 percent of premiums paid for small business employers and 25 percent of premiums paid for small tax-exempt employers such as charities.

This year, changes to the tax credit are as follows:

- The maximum credit will increase to up to 50 percent of premiums paid for small business employers and up to 35 percent of premiums paid for small tax-exempt employers.
- To be eligible for the credit, a small employer must pay premiums on behalf of employees enrolled in a Qualified Health Plan offered through a SHOP Marketplace. One exception is if there are no SHOP Marketplace plans offered in their region.
- The credit will be available to eligible employers for two consecutive taxable years.
- The credit can be applied to dental and vision coverage.

The tax credit is worth up to 50 percent of the employer's contribution towards employee's premium costs when coverage is made available through the SHOP. If a small business provided insurance and paid a percentage of the premium that would have earned them a tax credit, employers can file amended returns to receive the tax credit during those years.

### **Special Enrollment Periods**

A Special Enrollment Period is a time outside of an employer's annual enrollment period during which qualified employees may have a right to sign up for coverage or make changes to their coverage choices.

An employee must notify the SHOP Marketplace of a life event that triggers a Special Enrollment Period no later than 30 days from the date of the event. Employees who either become eligible or lose eligibility for Medicaid or the Children's Health Insurance Program (CHIP) have 60 days from the date of the event to notify the SHOP Marketplace. If employees do not notify the SHOP Marketplace within the required timeframe, employees must wait until their next annual enrollment period to make a change.

In most cases if the SHOP Marketplace is notified by the 15th of the month, the change will be effective the 1st of the following month. If the SHOP Marketplace is notified after the 15th, the effective date for the new coverage option is the first day of the second month following the notification.

## **Conclusion**

Small business owners have struggled to keep up with the ever-rising cost of health insurance for their employees. The ACA makes it easier for businesses to find better coverage options and builds on the current employer-based insurance market. The SHOP, combined with new insurance reforms and tax credits provided by the Affordable Care Act, gives employers new options to provide their employees with high quality, affordable healthcare coverage.