



National Association for the Self-Employed

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A Micro-Business Story Eliminating the Self-Employment Tax on Health Insurance Premiums

Kent Dillon, KDS Accounting Service, Los Molinos, California

Kent Dillon opened KDS Accounting Service in 1996, when he needed additional income. Since being downsized from a large Silicone Valley firm last year, that need has become critical, and Kent has relied more on KDS for full-time work. Kent's wife works with him at KDS, networking for new business.

Kent and his wife rely on COBRA for health insurance now, but that coverage expires at the end of November. He pays \$368 per month for COBRA coverage, and has been looking urgently for affordable health insurance to start in December. So far, however, Kent has found that it would cost him approximately \$600 per month, or \$7,200 annually, for comparable individual coverage.

Additionally, Kent and his wife care for a granddaughter. She is covered by Medi-Cal, but Kent says he would love to get her a better health plan. The cost, though, is prohibitive.

With the \$7,200 that Kent expects to start paying for health coverage, he will owe an additional \$1,100 in self-employment tax, an expense larger businesses do not have to pay. "When other businesses can deduct health premiums as a business expense but I can't only because I'm small, that is truly unfair!" he says.

Not only is it unfair, it also hurts his business and livelihood. At 57 years old, Kent wishes he were thinking about retiring soon. But with little retirement savings, and not expecting enough to live off of from Social Security, Kent knows that will not come until somewhat later than the usual 65. If he were able to save the additional \$1,100 that he pays annually in self-employment tax on health premiums, Kent would invest that money into retirement savings.

Like so many self-employed individuals, Kent feels frustrated that the law is tilted in favor of big business. It leaves him pondering whether to change the entire structure of his business, such as incorporating instead of remaining a sole proprietor. He'd rather the law change to treat all business equally, instead of having to call his two-person accounting service firm a "corporation."

Kent also says, "I'm surprised and disappointed to hear Wally Herger isn't among the supporters of the Self-Employed Health Care Affordability Act. On most things he seems like my kind of Congressman."

For more information on access to affordable health coverage for the self-employed and micro-businesses, contact Maureen Petron, NASE public affairs manager, at (202) 466-2100 or mpetron@nase.org.