

## **Sole Proprietor Subsidy Considerations**

IRS 1040 requires Sole Proprietors to report their net business income on line 12.

Net business income is calculated in Schedule C and includes incomes and expenses for the sole proprietorship.

Health insurance premiums **for the sole proprietor** are specifically excluded from business expenses.

Health insurance premiums that the sole proprietor may pay **for employees** are considered allowable business expenses.

Instead, sole proprietors of one are allowed to deduct their health insurance premium from their income as part of the adjusted gross income calculation (line 29 of Form 1040).

DHA currently does not consider this deduction in calculating subsidy determinations.

## **Proposal**

Begin to consider business share of health insurance premium (i.e., 60% of DirigoChoice employee-only annual premium) as an offset to sole proprietor income in subsidy determination.

## **Impact**

Not affected

- 39% of sole proprietors are Bs. (no further reduction possible)
- 16 % of sole proprietors are Fs (income not provided)

Of the remaining 45%

- 33% of sole proprietors would see their subsidy increase
- 12% would stay in current subsidy level

DHA estimates, based on 2010 renewals, that the financial impact of making this change would represent approximately \$1.2 million annually (at full enrollment), requiring the Agency to reduce its enrollment goal from 11,000 DirigoChoice members to 10,635 members.