If you're self-employed and buying health insurance, you might wonder: *Am I eligible for premium tax credits through the individual marketplace, or do I need to purchase small group coverage?* The answer depends on a few critical definitions and rules about how health plans are purchased, who qualifies as part of a small group, and how tax credits operate.

Understanding Key Terms: Off-Exchange vs On-Exchange, Individual vs Small Group

Before diving into eligibility, it's essential to define these terms clearly. When it comes to health insurance:

- **On-exchange refers to health plans bought through a state's or the federal Health Insurance Marketplace (Healthcare.gov or a state-based marketplace). On-exchange plans are eligible for subsidized premium tax credits, depending on your income.**
- **Off-exchange** means purchasing plans directly from an insurance carrier's website or broker without using the marketplace. These plans often cost the same but are *not eligible* for marketplace premium tax credits.
- **Individual Marketplace** includes plans for individuals and families without an employer-based group plan.
- **Small Group Market** generally means plans available to small employers (usually 1-25 employees, though this varies by state). These are often called *small group plans*.

Bottom line: Whether your plan is on or off the exchange describes *how you buy it*. Individual vs small group describes *who is eligible*.

Individual vs Small Group Eligibility: The Importance of Common-Law Employees

When you're self-employed, your eligibility for small group coverage depends largely on whether you have employees, and if so, who they are. Here’s the magic rule that many overlook:

- **Owner-only businesses** — a self-employed person with no common-law employees — may or may not count as a small group employer depending on your state.
- **Common-law employees** are workers who you hire as employees (W-2), not contractors or family members without formal employment.

Mini Scenario:

Jennifer is a freelance graphic designer with no employees. She operates as a sole proprietor and pays herself through her business profits. Jennifer's business has no W-2 employees besides her. She is technically a one-person "group," but many states do NOT consider one-person businesses as small groups eligible for small group plans. Therefore, Jennifer is usually considered part of the **individual market** and can shop for individual marketplace plans, often qualifying for premium tax credits if her household income fits.

In contrast, if Jennifer hired an assistant on payroll (W-2), she becomes a small employer with at least one common-law employee, which generally makes her eligible for **small group plans**.

SHOP Marketplace Basics and Availability Limits

The **SHOP Marketplace** (Small Business Health Options Program) is the federally-run or state-run exchange for small employer health plans. Here’s what to know:

- **Employer eligibility:** You must have 1-50 employees (in some states 1-100) to use SHOP.
- **Owner-only groups:** Some states allow owner-only groups on SHOP, some do not.
- **Eligibility for tax credits:** Small employers who buy coverage through SHOP may qualify for a Small Business Health Care Tax Credit.
- **Employee participation:** Generally, at least 70% of full-time employees must enroll to qualify in SHOP.

Important Point:

The SHOP Marketplace exists to help small employers band together for small-group plans. It’s not a place for individuals without employees to buy employer-based coverage.

Small Business Health Care Tax Credit: Why It Drives the Decision

One of the biggest reasons that a self-employed person might choose small group over individual coverage is eligibility for the **Small Business Health Care Tax Credit**. Here's the nutshell:

- **Who qualifies?** Small employers with 1-25 full-time employees, paying average wages below $58,000 (indexed annually), and who offer SHOP marketplace coverage.
- **Credit size:** Up to 50% of employer-paid premium costs (up to 35% for tax-exempt employers).
- **Owner and spouse:** The owners and family members employed by the business can be covered under the group plan. However, owners and relatives' wage limits affect eligibility.

If a self-employed business owner has employees and qualifies for this credit, it often makes small group coverage significantly cheaper than individual plans—even if individual marketplace premium tax credits are available.

Mini Scenario:

Mark owns a small landscaping company and employs three workers. His business offers coverage through SHOP eligible for the Small Business Health Care Tax Credit. This tax credit covers nearly half his premium costs, making the small group plan more affordable. If Mark instead bought an individual market plan for himself, he would miss out on this lucrative tax credit.

Premium Tax Credits and Household Income: The Individual Market Subsidies

Self-employed people without common-law employees or with businesses that don't qualify as small groups usually buy in the individual marketplace. They may qualify for **premium tax credits** — subsidies that lower monthly premiums — based on their **household income** compared to the federal poverty level (FPL).

- Premium tax credits apply to plans purchased *on-exchange*.
- Credits scale with income between 100% and 400% of the FPL, sometimes higher with recent rules.
- The credits are not available for off-exchange plans, regardless of income.
- These subsidies can make a huge difference in month-to-month costs but are based solely on household income and family size.

Therefore, a self-employed person who has no employees and meets income criteria usually benefits from shopping the **individual marketplace** on-exchange plans, taking advantage of these tax credits.

SHOP Marketplace vs Carrier Direct Purchase: Different Routes, Different Benefits

How you Visit the website buy plans matters but does NOT automatically equal plan quality:

Purchase Route Who Can Use Tax Credits Available Characteristics **SHOP Marketplace** Small employers (1-50/100 employees, depending on state) Small Business Health Care Tax Credit (up to 50%) Small group plans; Employer controls plan choice and employee contributions; Some states have participation rules. **Carrier Direct Purchase** Any individual, self-employed, or employer groups (off-exchange) No marketplace premium tax credits Same plans as on-exchange but no subsidies; Sometimes more plan options off-exchange. **Individual Marketplace (On-Exchange)** Individuals/families without employer coverage Premium tax credits and cost-sharing reductions based on income Plans standardized by metal levels; Income-verified subsidies.

Key takeaway: Buying off-exchange plans at full price is not "better" coverage than marketplace plans just because of the purchase channel. The real difference is in subsidy eligibility and whether you are buying individual or small group coverage.

Summary Decision Guide: Which Path Fits a Self-Employed Person?

1. **Do you have employees (other than just yourself and spouse)?**
   - Yes → You likely qualify for small group plans, potentially through SHOP or direct with carriers, and might claim the Small Business Health Care Tax Credit.
   - No → You are probably in the individual market and should shop on-exchange for premium tax credits based on household income.
2. **Does your state allow one-person small group plans?**
   - Yes → You can shop small group coverage for owner-only groups (compare SHOP options).
   - No → You must shop the individual marketplace for coverage and subsidies.
3. **Do you have significant household income to qualify for subsidies?**
   - Yes → Shop on-exchange individual plans to get premium tax credits.
   - No → Off-exchange or small group coverage may be necessary.

Final Thoughts: The Devil is in the Details

Choosing between premium tax credits via the individual marketplace and small group coverage is not about which plan is better coverage-wise—many plans have the same networks and benefits across both markets. It's about eligibility based on your employment structure, the number of employees, household income, and state rules.

Always remember:

- **Off-exchange vs on-exchange** is a *purchase method*, not a measure of plan superiority.
- **Tax credits** are powerful cost savers but depend on marketplace eligibility and accurate income reporting.
- **Small Business Health Care Tax Credits** can sometimes offer bigger savings than individual subsidies—but only employers with employees qualify.
- **Local rules matter a lot:** State-specific SHOP rules and small group definitions can change your options dramatically.

For self-employed individuals, understanding these distinctions can save hundreds or thousands of dollars annually—and keep your health coverage compliant and stable.

If you want help navigating your specific state rules, employee situation, and subsidy options — feel free to reach out to an experienced broker who knows how to match your unique needs with the right purchase path.