

WebMemo



Published by The Heritage Foundation

No. 2706
November 20, 2009

Taxes Proposed to Pay for Health Care Reform

Curtis S. Dubay

The U.S. Senate recently released its long-awaited proposal for a government-run hostile takeover of the entire U.S. health care system. Predictably, it includes a barrage of higher taxes to pay for the bill's immense price tag.

An important addition to the list of tax hikes included in the Senate bill was an increase in the Medicare portion of the payroll tax. The current Medicare tax is 2.9 percent, paid half each by workers and employers. The proposal in the Senate bill raises this to 3.4 percent for workers making more than \$200,000 a year (\$250,000 for joint filers).

Under a long-standing principle, taxpayers pay the Medicare tax during their working years and receive coverage for hospitalization during their retirement. Using the additional payroll tax revenue from raising the rate to pay for a new, separate entitlement program would break the long-established tie between the tax and the benefits taxpayers receive for paying it.

Using new revenue from the Medicare tax to fund health care reform would be as illogical as raising the federal gas tax, which funds highway construction and maintenance, to pay for a new welfare entitlement.

Higher Taxes Than France. Higher Medicare taxes would push the top average marginal tax rate even higher than already scheduled. Currently, the top federal tax rate is 35 percent, but President Obama has proposed to allow it to increase to 39.6 percent.

In addition, the House of Representatives' version of health care reform includes a 5.4 percent

surtax on incomes over \$500,000 a year. All these increases, combined with state and local income taxes, would raise the average top marginal rate in the U.S. to over 52 percent. This would be higher than traditionally high-tax countries such as Italy, Spain, and even France.

A Growing List. Below is a list of the tax increases Congress and the Administration have proposed to finance health care reform. This list includes taxes in the bill passed by the House of Representatives, the bill the Senate is currently debating, and other taxes mentioned as a possible way to pay for health care reform.

- An income surtax on taxpayers earning more than \$500,000 a year,¹
- An excise tax on high-cost “Cadillac” health insurance plans that cost more than \$8,500 a year for individuals or \$23,000 for families,²
- An excise tax on medical devices such as wheelchairs, breast pumps, and syringes used by diabetics for insulin injections,³
- A cap on the exclusion of employer-provided health insurance without offsetting tax cuts,⁴
- A limit on itemized deductions for taxpayers with a top income tax rate greater than 28 percent,⁵

This paper, in its entirety, can be found at:
www.heritage.org/Research/HealthCare/wm2706.cfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

- A windfall profits tax on health insurance companies,⁶
- A value-added tax, which would tax the value added to a product at each stage of production,⁷
- An increase in the Medicare portion of the payroll tax to 3.4 percent for incomes great than \$200,000 a year (\$250,000 for married filers),⁸
- An excise tax on sugar-sweetened beverages including non-diet soda and sports drinks,⁹
- Higher taxes on alcoholic beverages including beer, wine, and spirits,¹⁰
- A tax on individuals without acceptable health care coverage of up to 2.5 percent of their adjusted gross income,¹¹
- A limit on contributions to health savings accounts,¹²
- An 8 percent tax on all wages paid by employers that do not provide their employees health insurance that satisfies the requirements defined by the Secretary of Health and Human Services,¹³
- A limit on contributions to flexible spending arrangements,¹⁴
- Elimination of the deduction for expenses associated with Medicare Part D subsidies,¹⁵
- An increase in taxes on international businesses,¹⁶
- Elimination of the tax credits paper companies take for biofuels they create in their production process—the so-called “Black Liquor credit,”¹⁷
- Fees on insured and self-insured health plans,¹⁸
- A limit or repeal of the itemized deduction for medical expenses,¹⁹

1. The Affordable Health Care for America Act, H.R. 3962, § 551.
2. America’s Healthy Future Act of 2009, S. 1796, § 6001.
3. *Ibid.*, § 6009.
4. Teddy Davis, “Will Obama Tax Your Health Benefits?,” ABC News, May 12, 2009, at <http://abcnews.go.com/Politics/Business/story?id=7562814&page=1> (November 18, 2009).
5. White House Office of Management and Budget, “The President’s 2010 Budget: Summary Tables,” August 2009, Table S-2, at <http://www.whitehouse.gov/omb/budget/fy2010/assets/summary.pdf> (November 18, 2009).
6. Jared Allen, “House Dems Looking at Windfall Profits Tax on Insurance Industry,” *The Hill*, October 8, 2009, at <http://thehill.com/homenews/house/62211-house-dems-considering-windfall-profits-tax-on-insurance-industry> (November 18, 2009).
7. Lori Montgomery, “Once Considered Unthinkable, U.S. Sales Tax Gets Fresh Look,” *The Washington Post*, May 27, 2009, at <http://www.washingtonpost.com/wp-dyn/content/article/2009/05/26/AR2009052602909.html> (November 18, 2009).
8. Joint Committee on Taxation, “Estimated Revenue Effects of the Revenue Provisions Contained in ‘The Patient Protection and Affordable Care Act,’” November 18, 2009, at <http://www.jct.gov/publications.html?func=startdown&id=3635> (November 19, 2009).
9. *Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options*, Committee on Finance, U.S. Senate, 111th Cong., 1st Sess., May 20, 2009, at <http://finance.senate.gov/roundtable/complete%20text%20of%20financing%20policy%20options.pdf> (November 18, 2009).
10. *Ibid.*
11. The Affordable Health Care for America Act, H.R. 3962, § 501.
12. *Ibid.*, § 533.
13. *Ibid.*, § 512.
14. *Ibid.*, § 532.
15. *Ibid.*, § 534.
16. *Ibid.*, § 553, 554, 561–563.
17. Katie Howell, “‘Black Liquor’ Tax Credit Restriction Rides on Health Care Bill,” *The New York Times*, November 4, 2009, at <http://www.nytimes.com/gwire/2009/11/04/04greenwire-black-liquor-tax-credit-restriction-rides-on-h-15986.html> (November 18, 2009).

- A limit on the Qualified Medical Expense definition,²⁰
- An increase in the payroll taxes on students,²¹
- An extension of the Medicare payroll tax to all state and local government employees,²²
- An increase in taxes on hospitals,²³
- An increase in the estate tax,²⁴
- Increased efforts to close the mythical “tax gap,”²⁵
- A 5 percent tax on cosmetic surgery and similar procedures such as Botox treatments, tummy tucks, and face lifts,²⁶
- A tax on drug companies,²⁷
- An increase in the corporate tax on providers of health insurance,²⁸ and
- A \$500,000 deduction limitation for the compensation paid by health insurance companies to their officers, employees, and directors.²⁹

More to Come. The full list of taxes proposed to pay for health care reform is provided because taxes currently left out of the Senate or House bills could reappear at any point. For instance, the tax on cosmetic surgery listed above (sometimes called the “Botox tax”) was written off long ago as a laughable way to pay for health care reform. Nevertheless, it somehow found its way into the current version of the Senate bill.

As the legislative process continues and Congress’s desperation to pass a bill increases, it could propose even more tax hikes to pay for its massive expansion of government size and power. The Heritage Foundation will update this list with each new proposal.

No Time for Tax Hikes. Raising taxes at any time is economically harmful, but doing so during a severe recession is reckless. The higher taxes in the health care plans would depress economic activity and delay recovery. When the recovery does finally come, it would be weaker than it would have been without all the tax increases. In the long run, economic growth would remain lower because of these damaging tax increases.

Instead of rushing through a badly conceived health care bill and raising taxes to pay for it, Congress should focus first on economic recovery by increasing the incentives to work, save, invest, and take on new economic risk. Congress can do so by dropping all talk of tax increases and extending permanently the 2001 and 2003 tax cuts.³⁰ That is the only way to pull the economy out of the “Great Recession” and get unemployed Americans back to work.

—Curtis S. Dubay is Senior Analyst in Tax Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

18. Joint Committee on Taxation, “Estimated Revenue Effects of the Revenue Provisions Contained in H.R. 3962, the “Affordable Health Care for America Act,” Scheduled for Consideration by the House of Representatives,” November 7, 2009, at <http://www.jct.gov/publications.html?func=startdown&id=3633> (November 18, 2009).

19. *Financing Comprehensive Health Care Reform*.

20. *Ibid*

21. *Ibid*.

22. *Ibid*.

23. *Ibid*.

24. Office of Management and Budget, “The President’s 2010 Budget: Summary Tables,” Table S-11.

25. *Ibid*.

26. Joint Committee on Taxation, “Estimated Revenue Effects.”

27. *Ibid*.

28. *Ibid*.

29. *Ibid*.

30. J. D. Foster and William W. Beach, “Economic Recovery: How Best to End the Recession,” Heritage Foundation *WebMemo* No. 2191, January 7, 2009, at <http://www.heritage.org/Research/Economy/wm2191.cfm>.