Backgrounder

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Obamacare Tax Subsidies: Bigger Deficit, Fewer Taxpayers, Damaged Economy

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Abstract: *The number of Americans who pay federal income taxes has been shrinking every year, with a recent report suggesting that less than half of American households owed federal income taxes in 2009. One of the key components of Obamacare, tax subsidies to purchase federally approved health insurance, will substantially increase the number of people who are not paying for government services and thus have a lower incentive to be concerned about record-breaking government spending. These tax subsidies, which take effect in 2014, will also harm the economy by increasing the national deficit and by creating huge marginal tax rates that will discourage productivity for many households. Obamacare's tax subsidies are one of the primary reasons to repeal Obamacare. This Heritage Foundation analysis lays out the facts.*

The percentage of households that pay no federal income taxes has more than doubled over the past two decades[1]—creating a detachment between many Americans and the cost of their government. On April 29, 2011, the congressional Joint Committee on Taxation highlighted that only 49 percent of tax-filing units had positive income tax liability in 2009, while 30 percent of tax-filing units received more from the federal government in tax credits than the amount of their income tax liability.[2] It is nothing less than shocking, even given the economic recession, that half of the tax-filing households in the entire country did not pay any federal income tax in 2009.

Obamacare will exacerbate this detachment through its creation of tax subsidies to purchase health insur-

Talking Points

- New tax subsidies under Obamacare will increase the deficit and the corresponding burden on future taxpayers in excess of $100 billion. At the same time, the tax subsidies will transfer considerable income to millions of households that do not receive health insurance through their (or their family members') jobs.
- The Obamacare tax subsidies will remove millions of people from the federal income tax rolls and will likely create a scenario in which half of all households have zero, or negative, income tax liability. These households will effectively be detached from the cost of government.
- Since many of the beneficiaries will be in the upper middle class, Obamacare's tax subsidies represent a reckless addition to the welfare state.
- Because the tax subsidy for certain households is so large, the threat of losing that subsidy will act as a powerful disincentive for individuals to become more productive, thereby harming the economy.

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ance. For instance, under the Obamacare tax subsidy, a 50-year-old married couple with three children will not pay federal income tax until they earn around $108,000. The tax subsidies, along with the enormous expansion of Medicaid, represent one of the most significant increases in the number of individuals who do not contribute to the cost of government in generations. Moreover, the deficit-increasing tax subsidies will dramatically increase marginal tax rates at the cutoff point for the subsidy, which is four times the federal poverty level (FPL), or about $95,000 for a family of four, and $111,000 for a family of five, in 2014. Dramatically higher marginal tax rates discourage individuals from working and will therefore harm the economy. For these reasons, the tax subsidies point to the necessity of repealing Obamacare.

Obamacare Tax Subsidies

Obamacare's tax subsidies are available for certain households who purchase federally approved coverage in the newly created state health insurance exchanges. Households below 400 percent of the federal poverty level qualify for the subsidies unless they are eligible for Medicare or Medicaid or they can receive coverage through their employer that meets standards established in Obamacare.[3]

The tax subsidy is structured to cap the percentage of family income that these households pay for health insurance with an actuarial value of 70 percent, equivalent to a "silver" plan in the exchanges.[4] The percentage is based on a sliding scale, so the subsidy decreases as household income rises. Households at 133 percent of the FPL will receive a tax subsidy that limits their out-of-pocket premium contribution to 3 percent of gross income. Households between 300 percent and 400 percent of the FPL will receive a tax subsidy that limits their premium contribution to 9.5 percent of household income.[5]

Besides income, the tax subsidy is determined by the premiums people would expect to pay for a "silver" plan in the exchanges, adjusted for the person's age. Since Obamacare allows premiums to reflect the fact that older individuals are more likely to have higher health care expenses, older individuals receive a more generous tax subsidy.[6]

When it takes effect in 2014, the Obamacare tax subsidy will become the largest tax subsidy that many families receive. Currently, the two largest tax credits are the child tax credit ($1,000 per child per year) and the earned income tax credit (EITC), which can be worth up to several thousand dollars.[7] The EITC is a "refundable" tax credit, and the child

1. Scott Hodge, "Record Numbers of People Paying No Income Tax; Over 50 Million 'Nonpayers' Include Families Making over $50,000," Tax Foundation, March 10, 2010, at *http://www.taxfoundation.org/publications/show/25962.html* (May 9, 2011).
2. Joint Committee on Taxation, "Information on Income Tax Liability for Tax Year 2009," April 29, 2011, at *http://finance.senate.gov/newsroom/ranking/release/?id=e7723a9e-ed4a-4e10-af90-a56dfb0ccec5* (click the PDF labeled "JCT Analysis Income Tax Liability for Tax Year 2009") (May 10, 2011).
3. Obamacare deems health insurance "affordable" if it covers less than 60 percent of the cost of benefits or premiums exceed 9.5 percent of income. If health insurance offered through work is not "affordable," the worker qualifies for a subsidy in the exchanges if his household income is between 133 percent and 400 percent of the FPL.
4. A silver plan has an actuarial value of 70 percent, meaning that for all enrollees in a typical population, the plan will pay 70 percent of total expenses for covered benefits, with enrollees responsible for the rest. (A platinum plan has an actuarial value of 90 percent; a gold plan has an actuarial value of 80 percent; a bronze plan has an actuarial value of 60 percent.)
5. The applicable percentages are: 3 percent for households at 133 percent of the FPL; 4 percent for households at 150 percent of the FPL; 6.3 percent for households at 200 percent of the FPL; 8.05 percent for households at 250 percent of the FPL; and 9.5 percent for households between 300 percent and 400 percent of the FPL. Percentages for households between these percentages are calculated based on a sliding scale using linear interpolation.
6. The natural variation by age in medical costs is about 5:1, which means that someone near age 65 costs about five times as much to insure as an 18-year-old. Under the Patient Protection and Affordable Care Act (Obamacare), the age band is limited to 3:1.
7. The child tax credit is nonrefundable in most circumstances and is equal to $1,000 per child. The child tax credit begins phasing out at $110,000 for married couples filing jointly, and $75,000 for single and head-of-household filers, until completely phased out by $130,000 and $95,000, respectively. The EITC is available to lower-income working households and increases with the number of children. The EITC also phases out, although at much lower income levels. For example, in 2010 the EITC phased out around $45,300 for a married couple with two children.

tax credit is refundable in certain circumstances.[8] These tax credits are the primary reason why many households have zero, or negative, federal income tax liability. The Obamacare tax subsidies will cause more households to fall into these categories. Without Obamacare, a family of four headed by a 40-year-old earning $70,000 owes about $5,400 in federal income taxes. Under Obamacare, that same family will receive a tax subsidy of $5,579.

Expansion of Welfare State to Unseen Heights

Obamacare's tax subsidies transfer considerable income from taxpayers to millions of households that do not receive health insurance through their (or their family members') jobs. The Obamacare subsidies also substantially increase the number of people who do not pay for the government services from which they benefit.[9] Table 1 shows the income at which a household will begin paying federal income taxes if it qualifies for the health insurance tax subsidy under Obamacare. The numbers in parentheses are the estimated size of the household's health insurance tax subsidy.[10]

Two factors affect the magnitude of the estimates in the table: (1) household size and (2) the age of the head of household. As household size increases, the number of exemptions that households qualify for (that reduce taxable income) and the probability of qualifying for the child tax credit increase as well.[11] Additionally, since the FPL is based on household size and the tax subsidies are based on the FPL, the Obamacare tax subsidies increase as household size increases. The age of the head of household matters for the calculation since health insurance premiums increase as people grow older.[12] Larger families with older parents will qualify for more generous subsidies, relative to similar families with younger parents, and will therefore have to earn higher incomes to have federal income tax liability.[13]

There are several striking features from Table 1. The first is that many middle-class households, some in the upper middle class, will not pay any federal income tax if they qualify for the Obamacare tax subsidy. For example, a married couple aged 50 with two children (under the age of 19, to qualify for the child tax credit), who qualify for the Obamacare tax subsidy, will not begin paying federal income taxes until earning approximately $94,872.[14] An identical family with the same gross income that receives insurance through work will pay about $7,572 in federal income taxes—the value of the Obamacare tax subsidy for a household with these characteristics.

Bigger Deficit, Fewer Taxpayers

The Congressional Budget Office (CBO) estimates that about 19 million people will receive tax subsidies to purchase insurance through the state exchanges in 2019.[15] Since these subsidies are refundable, millions of additional households will have federal tax subsidies that exceed their income tax liability. In fact, most of the households participating in the exchanges will not pay any federal income taxes and will likely receive money

8. This means that if the value of the EITC exceeds the household's federal income tax liability, the IRS cuts a check to the household for the difference.
9. William W. Beach and Patrick D. Tyrrell, "The 2010 Index of Dependence on Government," Heritage Foundation *Center for Data Analysis Report* No. CDA10-08, October, 14, 2010, at *http://www.heritage.org/research/reports/2010/10/the-2010-index-of-dependence-on-government*.
10. For a complete description of the methodology, please see the appendix.
11. Household size also affects the EITC, but most of the households at the cutoff for federal income tax liability with the Obamacare tax subsidies earn too much to qualify for the EITC.
12. The age band for premium rating is typically about 6:1, which means that someone near age 65 costs about five times as much to insure as an 18-year-old. Under Obamacare, the age band is limited to 3:1. The calculations from the Kaiser Family Foundation Subsidy Calculator account for Obamacare's adjustment limitation for age.
13. In this case, both families are assumed to have the same income.
14. This estimate assumes that the household will have an average probability of taking an itemized deduction and that the size of the itemized deduction will be the average at that income level.
15. Douglas W. Elmendorf, Director, Congressional Budget Office, "Letter to the Honorable Nancy Pelosi, Speaker, U.S. House of Representatives," March 20, 2010, at *http://www.cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf* (May 9, 2010).

back from Washington. Even when accounting for households that currently have no federal income tax liability, the Obamacare tax subsidies create a scenario in which about half of all households will have zero or negative income tax liability after the economy has recovered completely from the recession.

The tax subsidies are projected to be the biggest deficit-increasing component of Obamacare. The CBO estimates that the subsidies will add $100 billion to the deficit by 2018, growing more expensive thereafter.[16] Since many of the beneficiaries will be in the upper middle class, Obamacare's tax subsidies represent a reckless addition to the wel-

Obamacare Subsidies: Expansion of Welfare State to Unseen Heights

For each group shown in the table below, the first figure is the income level at which households that qualify for the Obamacare tax subsidy go from paying zero net federal income taxes to at least $1 in taxes. The second figure, in parentheses, is the amount of their health insurance tax subsidies. Amounts highlighted in orange ( ) show income at 400 percent of the federal poverty level, which is also the point at which these groups would lose the entire tax subsidy if they earned $1 more. Therefore, these households in the highlighted region will not face positive federal income tax liability until they reach the cut-off point for the tax subsidy.

Filing Status and Age	Number of Children				
Single or Head of Household	**No Children**	**1 Child**	**2 Children**	**3 Children**	**4 Children**
30 years old	$25,605 ($1,634)	$46,677 ($2,249)	$68,942 ($3,559)	$77,250* ($2,769)	$81,000* ($2,609)
40 years old	$29,050 ($2,150)	$56,115 ($3,219)	$78,657* ($4,658)	$82,440* ($4,298)	$85,000* ($4,055)
50 years old	$37,975 ($3,370)	$62,441 ($7,326)	$78,657* ($9,113)	$92,122* ($7,833)	$94,080* ($7,647)
60 years old	$46,226 ($5,781)	$62,440 ($13,395)	$78,657* ($16,570)	$94,872* ($12,047)	$111,087# ($13,489)
Joint Married	**No Children**	**1 Child**	**2 Children**	**3 Children**	**4 Children**
30-year-old couple	$46,277 ($2,321)	$66,585 ($3,782)	$73,055 ($3,168)	$81,742 ($2,477)	$87,787 ($2,383)
40-year-old couple	$53,755 ($3,443)	$76,510 ($4,862)	$82,890 ($4,247)	$89,447 ($3,633)	$95,917 ($3,018)
50-year-old couple	$62,441 ($7,326)	$78,657 ($9,113)	$94,872 ($7,572)	$107,630 ($6,360)	$112,000* ($5,945)
60-year-old couple	$62,441 ($13,395)	$78,657 ($16,570)	$94,872 ($15,029)	$111,087* ($13,489)	$126,460* ($11,948)

* Eligible for partial rather than full child tax credit.
\# Ineligible for a child tax credit because income is too high.

Sources: The Kaiser Family Foundation's Health Reform Subsidy Calculator was used to estimate single and family insurance premiums in 2014. The author estimated single-plus-one premiums using additional data from the Medical Expenditure Panel Survey Insurance Component. Obamacare tax subsidies were taken from the Kaiser Family Foundation Subsidy Calculator's calculations of the cost of insurance by age group for single plans and families of four. The author assumed that current tax policy (rates and credits) hold until 2014. For a detailed description of the author's calculations of federal income tax liability, please see the methodological appendix.

Table 1 • B 2554 heritage.org

16. The CBO projects the six-year budgetary cost (2014–2019) for the Obamacare subsidies to be $465 billion. The annual cost to taxpayers is expected to grow over time as more individuals receive subsidized coverage in the exchanges. The CBO's projected cost to taxpayers is $114 billion in 2019. Elmendorf, "Letter to the Honorable Nancy Pelosi, Speaker, U.S. House of Representatives." The cost estimate includes an increase of $358 billion in federal spending for the premium-assistance and cost-sharing subsidies and $107 billion in lost revenue from the impact that the tax subsidies have on reducing the amount of taxes individuals owe.

fare state. Furthermore, the considerable expense of these tax subsidies will be borne by a dwindling number of households who pay federal income taxes, and by future taxpayers through increased federal borrowing.

Enormous Marginal Tax Rates

The Obamacare tax subsidies will profoundly discourage productivity near the point at which households lose eligibility for the subsidy. Those participating in the health insurance exchanges will be eligible for subsidies *only* if their family income is less than four times the federal poverty level (almost $95,000 for a family of four in 2014). Once family income increases beyond 400 percent of the FPL, the entire tax subsidy is lost.

According to the Kaiser Family Foundation Subsidy Calculator, a family of four headed by a 60-year-old would stand to lose a tax subsidy worth more than $15,000 as household income passes 400 percent of the FPL. The subsidy is therefore equivalent to roughly $24,000 in pre-tax income, which means that the family would need a raise of $24,000 to simply break even. The cliff effect is much less significant at lower ages because premiums, and hence the tax subsidies, are less generous.

Table 1 shows the impact of the loss of the tax subsidy for certain families. At $94,872, a 50-year-old married couple with two children is at the maximum amount it can earn to still qualify for the tax subsidy (shown by the shaded region in the table and indicates this family is at 400 percent of the FPL). If the family earns a single extra dollar, it will lose the tax subsidy of $7,572 and experience a significant decrease in disposable income.

As a case study, consider the impact of the Obamacare tax subsidy on households headed by a 40-year-old taking a standard deduction.[17] Table 2(a) shows the tax subsidy amount by filing status and income level, and Table 2(b) shows the corresponding household federal income tax liability (a negative amount means the household receives that amount back from the IRS). Table 2(b) provides further evidence of the large marginal tax rate when the Obamacare tax subsidies expire at 400 percent FPL. For example, a married 40-year-old couple with one child faces an average marginal federal income tax rate of more than 65 percent when family income goes from $70,000 to $80,000. Including payroll taxes and state taxes, this estimate would likely push the marginal rate for these households above 80 percent.

Because the subsidy for certain households is so large, the threat of losing the tax subsidy will act as a powerful disincentive for individuals to earn additional income. Since the size of the subsidy is larger for older people, this disincentive only increases in strength as people grow older and as income approaches the upper limit for subsidy eligibility. Research on the behavior of people when responding to taxes has shown that these types of subsidies reduce work and productivity.[18]

Widespread Ramifications

Obamacare's tax subsidies will increase future annual budget deficits well in excess of $100 billion, and will remove millions of households from the federal income tax rolls. While households receiving the tax subsidies will still face payroll taxes, the payroll tax is thought to be earmarked for Social Security and part of Medicare.

Federal income taxes, on the other hand, fund the military, federal agencies, and state programs like Medicaid. The Obamacare subsidies substantially shrink the tax base that pays for these programs and thus desensitizes many more voters to the cost of government. As a result, the corresponding tax burden to finance government will fall on a dwindling number of households. Moreover, many other households will face crushing marginal tax rates around the income cutoff for the Obamacare tax subsidy.[19]

17. The authors used a standard deduction for simplification and comparison purposes.
18. Jonathan Gruber and Emmanuel Saez, "The Elasticity of Taxable Income: Evidence and Implications," *Journal of Public Economics*, Vol. 84, No. 1 (April 2002), pp. 1–32, at *http://elsa.berkeley.edu/~saez/gruber.pdf* (May 9, 2011).
19. For a discussion of the implications of the marginal tax rates caused by Obamacare see Daniel Kessler, "How Health Reform Punishes Work," *The Wall Street Journal*, April 25, 2011, at *http://online.wsj.com/article/SB10001424052748704628404576265692304582936.html* (May 9, 2011).

Growth-focused tax policy should be moving in exactly the opposite direction by expanding the tax base and lowering marginal rates. Reforming the federal tax treatment of health insurance to promote equity between those with and without access to insurance through their jobs is necessary, but should be combined with a more significant tax reform that is careful not to take people in the middle class off the tax rolls. Furthermore, the design of tax subsidies to purchase health insurance should not include harmful cutoff points that discourage work and productivity.

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Obamacare Tax Credits: High Marginal Rates

To illustrate the effects of the Obamacare tax subsidies, the two tables below show figures for 40-year-olds who take a standard deduction. As incomes rise, tax subsidies drop and tax liabilities rise, effectively resulting in large marginal tax rates with a subsidy cliff at 400 percent of the federal poverty level. Additionally, since the Obamacare tax subsidy is refundable, those groups highlighted in orange ( ) would have negative tax liabilities, meaning they would receive the amount listed back from the IRS.

Health Insurance Tax Subsidy

Income	Single	Head of Household		Married			
		1 Child	2 Children	Couple	1 Child	2 Children	3 Children
$30,000	$2,002	$6,768	$10,895	$6,768	$10,895	Medicaid	Medicaid
$40,000	$700	$5,258	$9,562	$5,258	$9,562	$10,187	$10,670
$50,000	$0	$3,800	$8,043	$3,800	$8,043	$8,791	$9,439
$60,000	$0	$2,850	$6,430	$2,850	$6,430	$7,248	$8,013
$70,000	$0	$0	$5,480	$0	$5,480	$5,579	$6,453
$80,000	$0	$0	$0	$0	$0	$4,530	$4,807
$90,000	$0	$0	$0	$0	$0	$3,580	$3,580
$100,000	$0	$0	$0	$0	$0	$0	$2,630

Federal Income Tax Liability (after applying the health insurance subsidy)

Income	Single	Head of Household		Married			
		1 Child	2 Children	Couple	1 Child	2 Children	3 Children
$40,000	$3,344	–$2,419	–$7,385	–$3,170	–$7,962	–$9,053	–$10,570
$50,000	$5,894	$0*	–$4,290	–$213	–$5,041	–$6,373	–$7,607
$60,000	$8,394	$1,988**	–$1,177	$2,238	–$1,928	–$3,331	–$4,681
$70,000	$10,894	$6,779	$0*	$6,588	$0*	–$161	–$1,621
$80,000	$13,394	$9,279	$7,034**	$8,088	$6,503**	$388**	$0*
$90,000	$15,894	$11,779	$9,804	$9,588	$8,003	$2,838	$1,253**
$100,000	$18,394	$14,279	$12,304	$11,775	$9,800	$7,918	$3,703

* Level at which partial child tax credit is applicable.
** Level at which full child tax credit is applicable.

Sources: The Kaiser Family Foundation's Health Reform Subsidy Calculator was used to estimate single and family insurance premiums in 2014. The author estimated single-plus-one premiums using additional data from the Medical Expenditure Panel Survey Insurance Component. Obamacare tax subsidies were taken from the Kaiser Family Foundation Subsidy Calculator's calculations of the cost of insurance by age group for single plans and families of four. The author assumed that current tax policy (rates and credits) hold until 2014. For a detailed description of the author's calculations of federal income tax liability, please see the methodological appendix.

Table 2 • B 2554 heritage.org

APPENDIX
METHODOLOGY

Federal income tax liability is estimated as a function of income, the federal tax schedule adjusted to 2014 levels, the standard or itemized deduction and personal exemption adjusted to 2014 levels, the Earned Income Tax Credit (EITC), the child tax credit, and the Obamacare health insurance tax subsidy. For our calculations, we assumed that the current tax policy is extended and that marginal rates and the number of households affected by the alternative minimum tax do not increase.

We assumed unmarried adults without children will file as singles and will purchase a single health insurance plan in the exchanges. We assumed unmarried individuals with children will file as heads of household. We assumed unmarried adults with only one child would buy a single-plus-one plan, whereas unmarried adults with more than one child would buy family coverage. We assumed married couples without children would buy a single-plus-one plan, whereas married couples with children would buy family coverage.

We used the Kaiser Family Foundation's (KFF) Health Subsidy Calculator for the estimates of the second-lowest-cost "silver plan," which has an actuarial value of 70 percent. In addition, we calculated single-plus-one premiums by increasing single-plan-premium estimates from the KFF Calculator by 90 percent. The 90 percent estimate was derived by comparing single and single-plus-one coverage for employer-sponsored insurance from private firms in the Medical Expenditure Panel Survey Insurance Component.[20]

According to the provisions of Obamacare, variations in premiums for insurance plans will be almost entirely based on the age of the head of household. This is because Obamacare does not allow premiums to reflect much besides age, and the variation by age is restricted to a 3-to-1 age rating band. Premiums by age for individual and family coverage for 2014 were calculated based on the Health Subsidy Calculator found on the KFF Web site.[21] The individual-plus-one premiums were derived by multiplying the individual plan premiums by the ratio of average individual-plus-one premiums to individual premiums of employer-sponsored plans for private firms using data from the 2009 Medical Expenditure Panel Survey Insurance Component.[22] Appendix Table 1 shows Kaiser's estimated premiums (and our estimates for individual-plus-one premiums) by age of the head of household and coverage type.

Estimated Premiums in Exchange

Age	Individual	Individual Plus-One	Family
30	$3,440	$6,670	$10,108
40	$4,500	$8,550	$12,130
50	$6,978	$13,258	$16,858
60	$10,172	$19,327	$24,042

Note: Premiums are for insurance with a 70 percent actuarial value.
Source: Kaiser Family Foundation, Health Reform Subsidy Calculator, at *http://healthreform.kff.org/SubsidyCalculator.aspx#incomeAgeTables* (May 5, 2011)

Appendix Table 1 • B 2554 heritage.org

According to the Department of Health and Human Services, the 2011 federal poverty rate for an individual was $10,890. This amount increases by $3,820 for each additional member of the household. We adjusted these figures by 2 percent annually in order to estimate what they will be in 2014. Appendix Table 2 estimates the 2014 income level

20. The Insurance Component of the Medical Expenditure Panel Survey is a collection of data based on a nationally representative survey of private-sector and public-sector employers and the health plans they offer. The data is available from the Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services, "Medical Expenditure Panel Survey (MEPS)," at *http://www.meps.ahrq.gov/mepsweb/* (May 10, 2011).

21. Henry J. Kaiser Family Foundation, Health Reform Subsidy Calculator: Premium Assistance for Coverage in Exchanges, at *http://healthreform.kff.org/SubsidyCalculator.aspx#incomeAgeTables* (May 10, 2011).

Estimated Income Corresponding to Federal Poverty Level in 2014

Household Size	133% FPL	400% FPL
1	$15,370	$46,226
2	$20,762	$62,441
3	$26,153	$78,657
4	$31,545	$94,872
5	$37,937	$111,087
6	$42,328	$127,303

Source: Author's calculations based on data from U.S. Department of Health and Human Services, "2011 HHS Poverty Guidelines," at *http://aspe.hhs.gov/poverty/11poverty.shtml* (May 11, 2011)

Appendix Table 2 • B 2554 heritage.org

corresponding to 133 percent of FPL (the income threshold where households begin qualifying for the subsidies) and 400 percent of the FPL (the maximum income threshold for households to qualify for the subsidies).

Appendix Table 3 shows the estimated tax brackets that we used.

Example of Federal Income Tax Calculation. Following are the calculations for a 40-year-old married couple with three children under the age of 19 who file a joint return. The estimated standard deduction for this couple in 2014 is $12,300, but roughly two-thirds of filers in this bracket itemize their returns, thereby decreasing their taxable income. After adjusting the standard deduction (explained below under "Itemized Deduction Estimates"), itemizing will increase this couple's deduction by about $7,442. Including the $3,900 personal exemption means that this family can deduct about $39,242 from its total taxable income.

This same household benefits from a $1,000 tax credit per child as long as gross income remains below $110,000. If this household's gross income was below $50,000, it would also benefit from the EITC. With total deductions (including exemptions) of $39,242 and a child tax credit of $3,000, the household would have to earn more than $89,000 in order for the net federal income tax liability to be positive, if the family qualifies for the Obamacare tax subsidy.

For this particular family, household income would have to reach $89,447 until it has positive federal income tax liability. At this income level, the household is earning 322 percent of the FPL. Accordingly, this household is allowed to pay only 9.5 percent of its income toward the price of the silver plan in the health insurance exchanges, which is the plan to which tax subsidies are benchmarked.

Estimated Federal Tax Brackets in 2014

Marginal Tax Rate	Single	Head of Household	Married Jointly
10%	Less than $8,975	Less than $12,850	Less than $17,950
15%	$8,975–$36,450	$12,850–$48,850	$17,950–$72,900
25%	More than $36,450	More than $48,850	More than $72,900

Note: The 25 percent federal tax bracket is the highest bracket for households earning below 400 percent of the federal poverty level.

Source: Author's calculations based on data from the Tax Foundation, U.S. Federal Individual Income Tax Rates History, 1913–2011, at *http://www.taxfoundation.org/publications/show/151.html* (May 11, 2011).

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22. Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services, Table I.C.1 (2009), "Average total single premium (in dollars) per enrolled employee at private-sector establishments that offer health insurance and selected characteristics: United States, 2009," at *http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2009/tic1.pdf* (May 10, 2011); Table I.D.1 (2009), "Average total family premium (in dollars) per enrolled employee at private-sector establishments that offer health insurance by firm size and selected characteristics: United States, 2009," at *http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2009/tid1.pdf* (May 10, 2011); and Table I.E.2 (2009), "Average total employee contribution (in dollars) per enrolled employee for employee-plus-one coverage at private-sector establishments that offer health insurance by firm size and selected characteristics: United States, 2009," at *http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2009/tie2.pdf* (May 10, 2011).

Itemized Deduction Adjustment

Income Bracket	1 Percentage of Returns Itemized	2 Average Dollar Difference Between Itemized and Standard Deductions	3 Average Percentage Difference Between Itemized and Standard Deductions	4 Weighted Average Increase for Standard Deduction *(Column 1 x Column 3)*
For Married Couples				
$20,000–$24,999	17.20%	$8,508	72.9%	12.5%
$25,000–$29,999	21.90%	$9,436	81.1%	17.8%
$30,000–$39,999	25.10%	$9,171	78.8%	19.8%
$40,000–$49,999	32.30%	$9,381	80.9%	26.1%
$50,000–$74,999	46.00%	$9,741	83.1%	38.3%
$75,000–$99,999	65.40%	$11,002	92.5%	60.5%
$100,000–$200,000	85.40%	$17,469	144.4%	123.3%
For Heads of Household				
$15,000–$19,999	5.00%	$6,748	83.9%	4.2%
$20,000–$24,999	7.70%	$6,610	82.2%	6.3%
$25,000–$29,999	13.50%	$7,282	90.4%	12.2%
$30,000–$39,999	24.70%	$7,255	89.8%	22.1%
$40,000–$49,999	40.40%	$8,758	107.9%	43.6%
$50,000–$74,999	58.30%	$10,745	131.4%	76.6%
$75,000–$99,999	76.40%	$15,368	187.4%	143.2%
$100,000–$200,000	89.40%	$22,934	280.0%	250.4%
For Singles				
$10,000–$14,999	8.60%	$8,103	143.2%	12.3%
$15,000–$19,999	11.30%	$8,285	146.4%	16.6%
$20,000–$24,999	14.90%	$8,202	146.1%	21.7%
$25,000–$29,999	18.70%	$8,103	144.4%	27.1%
$30,000–$39,999	27.70%	$8,139	144.4%	40.0%
$40,000–$49,999	40.70%	$9,001	158.3%	64.4%
$50,000–$74,999	57.30%	$10,930	189.0%	108.4%
$75,000–$99,999	77.40%	$14,650	249.4%	193.0%
$100,000–$200,000	88.30%	$20,598	341.2%	301.2%

Source: Author's calculations based on data from the Internal Revenue Service, "Table 1.2 All Returns: Adjusted Gross Income, Exemptions, Deductions, and Tax Items, by Size of Adjusted Gross Income and by Marital Status, Tax Year 2008," at *http://www.irs.gov/pub/irs-soi/08in12ms.xls* (May 11, 2011).

Appendix Table 4 • B 2554 heritage.org

Nine and a half percent of this household's income is $8,498. KFF estimates that a premium for family coverage in the exchange will be $12,130 for a family headed by a 40-year-old. Therefore, this family will receive a tax subsidy of $3,633 to buy health insurance in the exchange. This family's Obamacare tax subsidy plus its aggregate child tax credit yields $6,633 worth of total tax credits.

Itemized Deduction Estimates. We also made adjustments to the standard deduction to reflect the fact that many households file their tax returns with itemized deductions, not the standard deduction. As household income rises, more households benefit from filing itemized deductions, as this enables them to further reduce the income on which they pay taxes. We generated these tables from 2008 Statistics of Income tax data from the Internal Revenue Service. See Appendix Table 4. (The last column ("Weighted Average Increase") shows the combined effect of the probability that a household in that bracket itemizes its return, and the average amount of that itemized return.)