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Obamacare and New Taxes: Destroying Jobs and the Economy

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The Patient Protection and Affordable Care Act (PPACA)[1] imposes numerous tax hikes that transfer more than $500 billion over 10 years—and more in the future—from hardworking American families and businesses to Congress for spending on new entitlements and subsidies. In addition, higher tax rates on working and investing will discourage economic growth both now and in the future, further lowering the standard of living.

Summary. PPACA[2] contains 18 separate tax increases that will cost taxpayers $503 billion between 2010 and 2019.[3] Three major tax hikes make up nearly half of the new revenue raised by PPACA:

1. Section 1401 imposes a 40 percent excise tax on “Cadillac” health insurance plans. This new tax will apply to health plans valued in excess of $10,200 for individuals and $27,500 for families. Those thresholds will grow annually by inflation plus 1 percent. The tax takes effect in 2018 and is projected to raise $32 billion by 2019.
2. Section 1411 increases the Medicare Hospital Insurance (HI) portion of the payroll tax. This provision will increase the employee’s portion from 1.45 percent to 2.35 percent for families making more than $250,000 a year (and for individuals making more than $200,000). Combined with the employer’s portion, the total rate will be 3.8 percent on every dollar of income over $250,000 when the tax hike takes effect in 2013.
3. Section 1411 also imposes a new payroll tax on investment. This tax provision applies the new higher 3.8 percent Medicare tax to investment income—including capital gains, dividends, rents, and royalties—and is scheduled to become effective in 2013. Together, the Medicare tax hikes will raise $210 billion between 2013 and 2019.

Table 1 lists all of the tax increases in PPACA.

Impact. As a result, the tax hikes in PPACA will slow economic growth, reduce employment, and suppress wages. These economy-slowing policies could not come at a worse time. PPACA tax increases will impede an already staggering recovery.

They Will Slow Economic Growth and Destroy Jobs. Taxes transfer money from productive private hands to the less efficient public sector. A politicized allocation is less efficient than market-based allocation because political decisions do not consider the highest-value use of resources, while the private sector considers such issues and therefore does a better job of assigning resources where they will contribute the most to economic growth.

They Will Discourage Work and Savings. Congress must levy high tax rates to take more Americans’ money, and this has a number of negative implications. Higher tax rates decrease the incentives for individuals to work and save more, both of which are

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The List of the Obamacare Taxes

Description of Tax	Year Effective	Revenue Raised (2010–2019)
Increase Hospital Insurance (HI) portion of the payroll tax from 2.9 percent to 3.8 percent for couples earning more than $250,000 a year ($200,000 for single filers).	2013	$210 billion
Apply the 3.8 percent HI tax to investment income for couples earning more than $250,000 a year ($200,000 for single filers) for the first time.	2013	*
Mandate for individuals to buy health insurance and employers to offer it to their workers.	2014	$65 billion
Annual fee on health insurance providers based on each individual company's share of the total market.	2014	$60 billion
40 percent excise tax on "Cadillac" health insurance for plans costing more than $10,200 for individuals and $27,500 for families.	2018	$32 billion
Impose an annual fee on manufacturers and importers of branded drugs based on each individual company's share of the total market.	2011	$27 billion
Exclusion of unprocessed fuels from the existing cellulosic biofuel producer credit.	2010	$24 billion
2.3 percent excise tax on manufacturers and importers of certain medical devices.	2013	$20 billion
Higher corporate taxes through stricter enforcement by requiring them to report more information on their business activities.	2012	$17 billion
Raise the 7.5 percent AGI floor on medical expenses deduction to 10 percent.	2013	$15 billion
Limit the amount taxpayers can deposit in flexible spending accounts (FSAs) to $2,500 a year.	2014	$13 billion
Reduce the number of medical products taxpayers can purchase using funds they put aside in health savings accounts (HSAs) and FSAs.	2011	$5 billion
Eliminate the corporate deduction for prescription expenses for retirees.	2013	$4.5 billion
Increase corporate taxes by making it more difficult for businesses to engage in business activities that reduce their tax liability.	2010	$4.5 billion
10 percent excise tax on indoor tanning services.	2010	$2.7 billion
Increased penalty for purchasing disallowed products with HSAs to 20 percent.	2011	$1.4 billion
Increase taxes on health insurance companies by limiting the amount of compensation paid to certain employees they can deduct from their taxes.	2013	$0.6 billion
Repeal special deduction for Blue Cross/Blue Shield organizations.	2010	$0.4 billion
TOTAL REVENUE RAISED		**$503 billion**

* Revenue raised from the application of the Hospital Insurance tax to investment income is included in the $210 billion figure shown above.

Sources: Heritage Foundation calculations based on data from the Joint Committee on Taxation.

Table 1 • WM 3100 heritage.org

essential for economic growth. Additionally, high rates discourage individuals from working harder and saving larger portions of what they earn. Combined, these two effects impede economic growth and reduce the number of jobs that businesses would have created had tax rates been lower.

They Will Not Reduce Deficits. Higher taxes never close budget deficits because, in the short

1. Congress cannot build sound market-based health care reform on the foundation of a flawed health care law. Therefore, the health care law must be repealed in its entirety.

   The House of Representatives has taken a major step towards full repeal of the Patient Protection and Affordable Care Act (PPACA—otherwise known as "Obamacare"). Until full repeal occurs, Congress must continue to focus on the core failures and consequences of PPACA and block its implementation to allow time to achieve repeal and lay the groundwork for a new market-based direction for health care reform.

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run, Congress will spend all of the extra revenue it receives from higher taxes. Congress always spends every dollar of tax revenue it raises and however much it can borrow from credit markets. In the long run, the extra revenue will dissipate as individuals adjust their behavior to minimize their tax liability. The only way to close deficits is to cut spending and align it with how much revenue the tax code typically raises.

A New Direction. All tax increases have negative economic effects because higher taxes take resources from the productive hands of the private sector and transfer them to the wasteful hands of politicians. Higher taxes also lessen the incentives for individuals and businesses to engage in activities and behaviors that expand the economy and create jobs.

The tax code is a severe drag on the economy and is badly in need of fundamental reform. Ideally, a revised tax code would adhere more closely to the well-known flat tax. This new tax system would tax all wage and salary income at one rate and provide for only minimal deductions, credits, and exemptions. Tax reform is not an excuse to raise taxes. The new tax code would raise the same amount of revenue as the current system but in a more efficient manner in order to enhance economic growth.

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2. Patient Protection and Affordable Care Act of 2010, Public Law 111–148, and Health Care and Education Reconciliation Act of 2010, Public Law 111–152.

3. Joint Committee on Taxation, "Estimated Revenue Effects of the Amendment in the Nature of a Substitute to H.R. 4872, the 'Reconciliation Act of 2010,' as Amended, in Combination with the Revenue Effects of H.R. 3590, the 'Patient Protection and Affordable Care Act ("PPACA"),' as Passed by the Senate, and Scheduled for Consideration by the House Committee on Rules on March 20, 2010," March 20, 2010, at *http://www.jct.gov/publications.html?func=startdown&id=3672* (January 14, 2011).