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CONTACT: John Kartch

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jkartch@atr.org

202-785-0266

What Tax Hikes Should We Expect to See in Harry Reid's Senate Health Bill?

WASHINGTON, D.C.—Reports indicate that this might be the week that Sen. Harry Reid (D-Nev.) and the rest of the Senate Democrat leadership finally merge together the healthcare bills approved by the Finance and HELP Committees. Below is a sneak peak of what the tax hikes likely will be:

- **Excise Tax on High-Cost Health Plans.** New 40% excise tax on health insurance plans to the extent they exceed \$26,000 in cost (\$9850 single). Exemptions made for over-55 retirees and “high-risk” professions; high-cost states phased in. The “Cadillac” threshold is indexed to inflation-plus-one percent, but average premium growth has been eight percent annually for the past decade. At that rate, the average family plan will hit the “Cadillac” threshold less than two decades from now. At that point, a majority of health insurance plans in America will face this new 40 percent tax.
- **Individual Mandate Tax.** If someone does not sign up for health insurance, he/she will have to pay a tax in the following range:

	Single	Family
100-300% of Federal Poverty Level	\$750	\$1500
300+% Federal Poverty Level	\$900	\$1900

The federal poverty level is about \$10,000 for a single person, and about \$22,000 for a family of four.

No rational person would enroll in a health insurance plan if they could pay this tax instead. People would be able to enroll in health insurance even if they wait until they get sick. Many people will simply pay this tax, and then enroll in health insurance when they need it. After they no longer need insurance, they will un-enroll and continue to pay the cheaper mandate excise tax.

The average cost of health insurance is about \$5,000 per year for an individual, and \$11,000 for families.

- **Employer Mandate Tax.** \$400 per employee if health coverage is not offered. This is a huge incentive to drop coverage, as \$400 is much less than the average plan cost of \$11,000 for families or \$5000 for singles. A rational employer will drop coverage and simply pay the much lower tax

- **Backdoor Death of Health Savings Accounts (HSAs).** By requiring that all plans (besides the few that are grandfathered) provide actuarially-generous coverage for most services, there would be no HSA-qualifying plans available from the Massachusetts-like exchanges
- **Report Employer Health Spending on W-2.** This is clearly a setup for the easy individual taxation of employer-provided health insurance down the road. If everyone receives an estimate of the cost of care on their W-2, it will be very easy for Congress to require that some or all taxpayers pay tax on this compensation
- **Cap Flex-Spending Account (FSA) Contributions at \$2,500.** Currently unlimited. This will have some of the worst side effects for families of special-needs children, who have very high health costs which can be made tax-advantaged with unlimited FSA deferrals
- **Eliminate tax deduction for employer-provided retirement Rx drug coverage in coordination with Medicare Part D.** This will cause the premature death of employer-provided retirement benefits for prescription medications
- **Medicine Cabinet Tax.** Americans would no longer be able to purchase over-the-counter medicines with their FSA, HSA, or HRA. They currently can do so, but this bill's clear intent is to disadvantage health accounts in the future
- **Increase Non-Qualified HSA Distribution Penalty from 10% to 20%.** This makes HSAs less attractive, and paves the way for HSA pre-verification. Assuming people will qualify to make HSA contributions at all (after the backdoor death of HSAs—see above), this makes that choice somewhat less attractive
- **Corporate 1099-MISC Information Reporting.** Currently, only non-corporations providing property or services for a business must be issued a 1099-MISC. This would expand the requirement to corporations doing business with other businesses. This would be a nightmare of compliance for small businesses, who will find themselves stuck issuing tax forms to dozens or even hundreds of vendors
- **Various industry tax grabs based on market share.** \$2.3 billion: PhRMA; \$6 billion: health insurance providers; \$4 billion: medical device manufacturers. No rationale here except a shakedown of politically-unpopular industries. Prices and premiums are sure to rise as a result.
- **Increase “haircut” of medical itemized deductions from 7.5% to 10% of adjusted gross income (AGI).** Under current rules, medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income. This would raise the “deduction before the deduction” to 10 percent of AGI. This also has the effect of conforming the regular tax rules to the AMT

Americans for Tax Reform is a non-partisan coalition of taxpayers and taxpayer groups who oppose all tax increases. For more information or to arrange an interview please contact John Kartch at (202) 785-0266 or by email at jkartch@atr.org.

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