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ATR Urges Action on Healthcare Taxes

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Dear Chairman Grassley, Ranking Member Wyden, and Members of the Senate Finance Committee Healthcare Tax Task Force:

I write to urge Congressional action on healthcare taxes. Lawmakers must act soon to repeal or delay the imposition of a number of taxes that will go into effect in 2020 including the Obamacare health insurance tax and medical device tax. Congress should also extend the 7.5 percent threshold to qualify for the medical expense deduction, extend the tax credit for paid family and medical leave, and repeal the Cadillac tax on employer provided care.

Health Insurance Tax

The Obamacare health insurance tax (HIT) is a tax on insurance premiums that is passed onto the middle class, seniors, and small businesses in the form of higher healthcare costs. **Congress should repeal the health insurance tax.**

The HIT is designed to pass the costs onto the middle class, seniors, and the poor. The HIT is estimated to **negatively impact** the 11 million households that purchase through the individual insurance market and 23 million households covered through their jobs. In 2020 alone, the HIT is projected to add an **estimated $16 billion** to the cost of coverage for families and Medicare Advantage seniors.

If lawmakers fail to act, the HIT **will increase** premiums by 2.2 percent per year and by almost $6,000 over the next decade for a typical family of four with small or large group insurance. This tax is also highly regressive – half of the HIT is **paid** by those earning less than $50,000 a year.

The HIT is also bad for small businesses. Because the tax only applies to fully-insured plans, large corporations and unions (which are universally self-insured) emerge unscathed. According to the American Action Forum, the tax will **directly impact** 1.7 million small businesses. One estimate, conducted by the National Federation for Independent Businesses, **estimates** the tax could cost up to between 146,000 and 262,000 jobs over a decade.

Medical Device Tax

Obamacare imposed a 2.3 percent excise tax on the sale of medical devices by manufacturers and small businesses. This tax covers common hospital equipment like X-Ray machines, MRI machines, and hospital beds. **Congress should fully repeal the medical device tax.**

The medical device tax was in effect from 2013 and 2015 but Congress has suspended the tax since 2016. When it was in effect, research indicates that the tax reduced research and development by $34 million in 2013 and disproportionately harmed companies with lower profit margins. This resulted in a loss of approximately 28,000 jobs.

Medical Expense Deduction

Since 1942, taxpayers with high medical bills have been able to deduct those expenses exceeding a certain percentage of their adjusted gross income (AGI). The medical expense deduction is very popular with the middle class.

Before Obamacare, families facing high medical bills could deduct expenses that exceeded 7.5 percent of their AGI. According to the IRS, approximately 10 million families took advantage of this deduction each year before Obamacare was signed into law. In 2010, the average taxpayer claiming the deduction earned just over $53,000 annually.

Obamacare increased the threshold to claim the medical expense deduction to 10 percent of AGI. This tax hike not only made it more difficult for the middle class to claim this deduction, it widened the net of taxable income. ATR estimated that the tax hike cost families an additional $200-$400 per year.

The Tax Cuts and Jobs Act restored the pre-Obamacare 7.5 percent standard for fiscal years 2017 and 2018. the 10 percent threshold is back in effect effective January 1, 2019. **Congress should make the 7.5 percent threshold permanent.**

Cadillac Tax

The Cadillac tax, a 40 percent excise tax on employer-provided health insurance plans, is scheduled to go into effect in 2022. on plans exceeding $10,200 for individuals and $27,500 for families.

If Congress fails to act, the Cadillac Tax will decrease care and increase costs for millions of American families across the country. It will impact virtually all employer-provided healthcare plans either through direct taxation or by causing employers to increase deductibles and co-pays in an effort to avoid hitting the thresholds.

The Cadillac Tax is also broadly unpopular with the American people – a 2018 poll found that 81 percent of voters oppose taxes on employer-provided healthcare coverage. **Congress should repeal the Cadillac Tax.**

Paid Family and Medical Leave Tax Credit

The Republican-passed Tax Cuts and Jobs Act (TCJA) implemented a paid family and medical leave tax credit for employers for two years (tax years 2018 and 2019). The credit is a good first step toward promoting family and medical leave without creating a new entitlement. **Congress should extend the paid family and medical leave tax credit.**

The credit is a sliding scale contingent upon the percentages of wage the employer pays the employee. If employers pay 50 percent of their employee's wages through the leave, the tax credit is 12.5 percent of the paid wage. The value of the credit increases as the percentage of wages paid increases. If employers pay 100 percent of their employee's wages throughout the leave, the credit is 25 percent. The credit cannot be claimed if the paid leave is less than 50 percent of the employee's wages.

Conclusion

As lawmakers consider reforms to lower healthcare costs and increase access to care, they should be sure to keep in mind the need to repeal damaging healthcare taxes and preserve credits and deductions that improve healthcare flexibility.

Thank you for your consideration. If you have any questions, please feel free to contact me or ATR's Director of Tax Policy Alex Hendrie at 202-785-0266.

Onward,

Grover G. Norquist
President, Americans for Tax Reform