THE WHITE HOUSE

WASHINGTON

January 25, 2007

POLICY MEMORANDUM

FROM: AL HUBBARD AND KEITH HENNESSEY

SUBJECT: THE PRESIDENT'S HEALTH TAX PROPOSAL

The President proposes to provide a new standard deduction for health insurance. The deduction would be $15,000 for a family and $7,500 for an individual.[1] The deduction would apply to both income <u>and payroll</u>[2] taxes. The deduction would be available to anyone who had health insurance of any value. The only requirement is that the health insurance policy must cover at least catastrophic costs.

At the same time, health insurance provided by an employer would be considered taxable income. The new standard deduction would replace the current exclusion for health insurance that a worker gets through his or her job.

Under current law, companies deduct health insurance costs and wages as legitimate business expenses. The President's proposal would not change this.

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[1] These figures are for 2009, the first year for which the policy would take effect. The amounts would be indexed for inflation.

[2] The deduction would apply for both <u>employer and</u> employee payroll taxes. Technically, it's an above-the-line deduction on the income tax side, and an exclusion on the payroll tax side. People who pay no income taxes would get payroll tax relief, but it is not a refundable tax credit.