

Congress of the United States

JOINT COMMITTEE ON TAXATION

Washington, DC 20515-6453

FEB 24 2010

MEMORANDUM

TO: Mark Prater

FROM: Thomas A. Barthold

T.A.B.

SUBJECT: Revenue Estimate

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We have received requests for our current estimates of part or all of Title IX of the President's health care proposal released February 22, 2010. I am providing you with a table of estimates representing our current understanding of the President's health care proposal. It is important to recognize that without knowledge of specific details, the estimates presented below may not accurately reflect the intent of the President's proposal. Our estimates are based generally on provisions as drafted in either the House or Senate bills with changes to effective dates and other aspects of the provisions as outlined in the documents describing the President's proposal. For the proposed expansion of the Medicare hospital insurance tax and the high premium excise tax, I describe in more detail below the proposals that we have estimated.

The proposed expansion in the Medicare hospital insurance ("HI") tax would be applied to both earned and unearned income. Under present law, the HI tax rate is 1.45 percent of earned income, and is imposed on both employer and employee, resulting in a total tax rate of 2.9 percent. For self-employed individuals, the HI tax rate is the same as the combined employer and employee HI rates, or 2.9 percent. Because there is no limit on the amount of earnings subject to the HI tax, the rate is applied to all wages and self-employment income.

Under the first part of the President's proposal, the HI tax rate on wages and self-employment income would be raised by 0.9 percentage points for single filers earning in excess of \$200,000 and joint filers earning in excess of \$250,000; the increased rate would be imposed only on the employee. The resulting HI tax rate on the employee portion would be 2.35 percent, and the employer portion would remain 1.45 percent, resulting in a total HI rate of 3.8 percent.

This proposal would also apply a 2.9 percent tax rate (equal to the combined employer and employee share of the HI tax under current law) on income from interest, dividends, annuities, royalties and rents, other than such income which is derived in the ordinary course of a trade or business which is not a passive activity (e.g., income from active participation in S corporations) on single filers earning in excess of \$200,000 for singles and joint filers earning in excess of \$250,000. We have assumed that the unearned income subject to the surtax would be reduced by any investment or miscellaneous expenses associated with the generation of the unearned income. A taxpayer's

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unearned income is subject to the 2.9 percent tax if the taxpayer's adjusted gross income exceeds the \$200,000 (\$250,000 in the case of joint filers) threshold. The unearned income surtax would be phased in over \$40,000 of adjusted gross income. The \$200,000 and \$250,000 thresholds that apply for purposes of both the earned and unearned income portions of the proposal are indexed for inflation.

The President's proposal for a high premium excise tax is a modified version of the high premium excise tax passed by the Senate on December 24, 2009. In particular, the President's proposal would delay application of the excise tax from 2013 to 2018 and would increase the excise tax threshold from \$8,500 for single coverage and \$23,000 for family coverage to \$10,200 for single coverage and \$27,500 for family coverage. Under the President's proposal, the thresholds are subject to adjustment in the event that the actual growth in the cost of U.S. health care between the date of enactment and 2018 exceeds the projected growth for that period. As in the Senate bill, the threshold amounts are indexed for inflation by the Consumer Price Index for Urban Consumers ("CPI-U") plus one percentage point, rounded to the nearest \$50. Under the Senate-passed version, the thresholds are increased for certain retirees or workers who are covered by plans sponsored by an employer the majority of whose employees are engaged in high risk professions. Under the President's proposal, the increase in the threshold amounts would be \$1,050 for single plans and \$2,200 for family plans. These additional amounts are also indexed for inflation by the CPI-U plus one percentage point, rounded to the nearest \$50. Instead of claiming the additional threshold amount for certain retirees or workers in a high risk industry or occupations, firms could elect to receive an adjustment to the threshold amount based on the age and gender of their employees.

For purposes of estimating, we have assumed that the thresholds and the increased amounts for retirees and employees in high risk professions would be indexed from 2018.

In addition, under the Senate-passed version, the 17 highest cost states would receive transition relief in 2013, 2014, and 2015. The President's proposal does not provide any transition relief for high-cost States.

Finally, under the Senate-passed version, the value of dental and vision benefits are taken into account in determining whether the value of employer-sponsored health insurance exceeds the threshold amounts. The President's proposal excludes the value of these benefits in making that determination.

ESTIMATED REVENUE EFFECTS OF PROPOSALS CONTAINED IN TITLE IX OF  
THE PRESIDENT'S PROPOSED HEALTH PACKAGE

Fiscal Years 2010 - 2019

*[Billions of Dollars]*

Provision	Effective	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
<b>Improve Enforcement and Close Tax Loopholes</b>													
1. Require information reporting on payments to corporations .....	pma 12/31/11	---	---	0.4	3.3	2.0	2.1	2.2	2.3	2.4	2.5	5.6	17.1
2. Exclusion of unprocessed fuels from the cellulosic biofuel producer credit .....	fsoua DOE	---	6.8	6.6	5.5	3.0	1.5	0.4	---	---	---	21.9	23.9
3. Codify economic substance doctrine and impose penalties for underpayments .....	teia DOE	0.1	0.3	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	1.9	4.9
<b>Total of Improve Enforcement and Close Tax Loopholes.....</b>		<b>0.1</b>	<b>7.1</b>	<b>7.4</b>	<b>9.3</b>	<b>5.5</b>	<b>4.2</b>	<b>3.2</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>29.4</b>	<b>45.9</b>
<b>Broaden Medicare Hospital Insurance (HI) Tax Base for High-Income Taxpayers - impose additional surtax of 0.9% on earned income in excess of \$200,000/\$250,000 (indexed), and 2.9% surtax on investment income for taxpayers with AGI in excess of \$200,000/\$250,000 (indexed) [1].....</b>													
	tyba 12/31/12	---	[2]	1.3	22.5	12.0	25.0	28.5	30.1	31.5	32.8	35.8	183.6
<b>40% excise tax on health coverage in excess of \$10,200/\$27,500 (subject to adjustment for unexpected increase in medical costs prior to effective date) indexed for inflation by CPI-U plus 1% and increased thresholds for over age 55 retirees or certain high-risk professions; adjustment based on age and gender profile of employees; vision and dental excluded from excise tax; levied at insurer level; employer aggregates and issues information return for insurers indicating amount subject to the excise tax; nondeductible [1].....</b>													
	tyba 12/31/17	---	---	---	---	---	---	---	---	12.5	20.3	---	32.7
<b>Health Industry Fees</b>													
1. Impose \$3.85 billion annual fee on manufacturers and importers of branded drugs .....	cyba 12/31/10	---	3.4	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	14.6	33.4
2. Impose 2.9% excise tax on manufacturers and importers of certain medical devices .....	sa 12/31/12	---	---	---	1.8	2.7	2.8	3.0	3.1	3.2	3.4	4.5	20.0



Provision	Effective	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
5. Make the adoption credit refundable; increase qualifying expenses threshold, and extend the adoption credit through 2011 .....	tyba 12/31/09	-0.2	-0.6	-0.5	[4]	---	---	---	---	---	---	-1.2	-1.2
<b>Total of Additional Tax Benefits for Healthcare.....</b>		<b>-0.6</b>	<b>-0.8</b>	<b>-0.6</b>	<b>-0.1</b>	<b>[2]</b>	<b>[2]</b>	<b>[2]</b>	<b>[2]</b>	<b>[2]</b>	<b>[2]</b>	<b>-2.1</b>	<b>-2.2</b>
<b>NET TOTAL .....</b>		<b>-0.5</b>	<b>10.4</b>	<b>13.1</b>	<b>39.2</b>	<b>37.2</b>	<b>50.7</b>	<b>53.4</b>	<b>56.3</b>	<b>71.7</b>	<b>81.2</b>	<b>99.3</b>	<b>412.2</b>

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column:

cyba = calendar years beginning after  
 dma = distributions made after  
 DOE = date of enactment

fsoua = fuel sold or used after  
 pma = payments made after  
 sa = sales after

spo/a = services performed on or after  
 teia = transactions entered into after  
 tyba = taxable years beginning after

[1] Estimate includes the following off-budget effects:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-14	2010-19
40% excise tax on health coverage.....	---	---	---	---	---	---	---	---	2.8	4.5	---	7.4
Conform the definition of medical expenses.....	---	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.6	1.4
Limit health flexible spending arrangements.....	---	---	---	---	0.4	0.5	0.5	0.5	0.5	0.3	0.4	2.9
0.9 percentage point increase to hospital insurance tax .....	---	---	---	3	-1.5	-0.7	-0.1	-0.1	-0.1	-0.2	1.5	0.2

[2] Loss of less than \$50 million.

[3] Effective for calendar years beginning after December 31, 2013; fee is allocated based on market share of net premiums written for any United States health risk for calendar years beginning after December 31, 2012.

[4] Gain of less than \$50 million.

[5] Estimate includes interaction with the high premium excise tax.

[6] Effective for remuneration paid in taxable years beginning after 2012 with respect to services performed after 2009.

[7] Effective for health benefits and coverage provided after the date of enactment.

[8] Effective for amounts paid or incurred after December 31, 2009, in taxable years beginning after December 31, 2009.