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New House Health Care Plan: Income Surtax is Modified in \$1.05 Trillion Bill

By Gerald Prante

Speaker Nancy Pelosi released a new version of the House health care reform bill, H.R. 3962, on the morning of Thursday, October 29, 2009. That afternoon, the Congressional Budget Office (CBO) put the total cost at \$1.055 trillion.¹ By comparison, CBO has scored Senate Finance Committee Chairman Max Baucus's plan at \$829 billion.

Here we compare the financing provisions of the two health care plans; there are similarities and major differences. Both bills would impose a financial penalty on individuals if they do not buy health insurance, although the House penalty is higher. In both plans, employers would have to pay a penalty to either the government or to new "health exchanges" if they do not provide a government-approved health insurance plan to employees, and once again, the penalty is larger in the House bill.

Also, both health care plans are financed by large net cuts to the Medicare program, mostly by lowering what the federal government is willing to pay doctors, hospitals and other health providers. Economists expect such Medicare cuts to be felt by both the health care industry and patients covered by Medicare.

Each plan has one large new tax, but those are quite different. Sen. Baucus's bill raises substantial revenue with a 40-percent excise tax on the value of so-called Cadillac health insurance plans. Democrats in the House shun the "Cadillac tax," agreeing with labor unions who have often bargained for the most expensive health insurance coverage. Instead, they propose a surtax on high-income tax returns. Single filers earning over \$500,000 in adjusted gross income (AGI) and couples earning over \$1 million would pay 5.4 percent of any additional dollar of income.² That surtax

¹ Letter to the Honorable Charles Rangel, Chairman, Ways and Means Committee, from Douglas Elmendorf, Director, Congressional Budget Office, dated October 29, 2009. See <http://www.cbo.gov/ftpdocs/106xx/doc10688/hr3962Rangel.pdf>

² The surtax would apply not only to regular "taxable income" but to "modified adjusted gross income" which includes capital gains, dividends and other types of income that are not taxed by the regular income tax rates.

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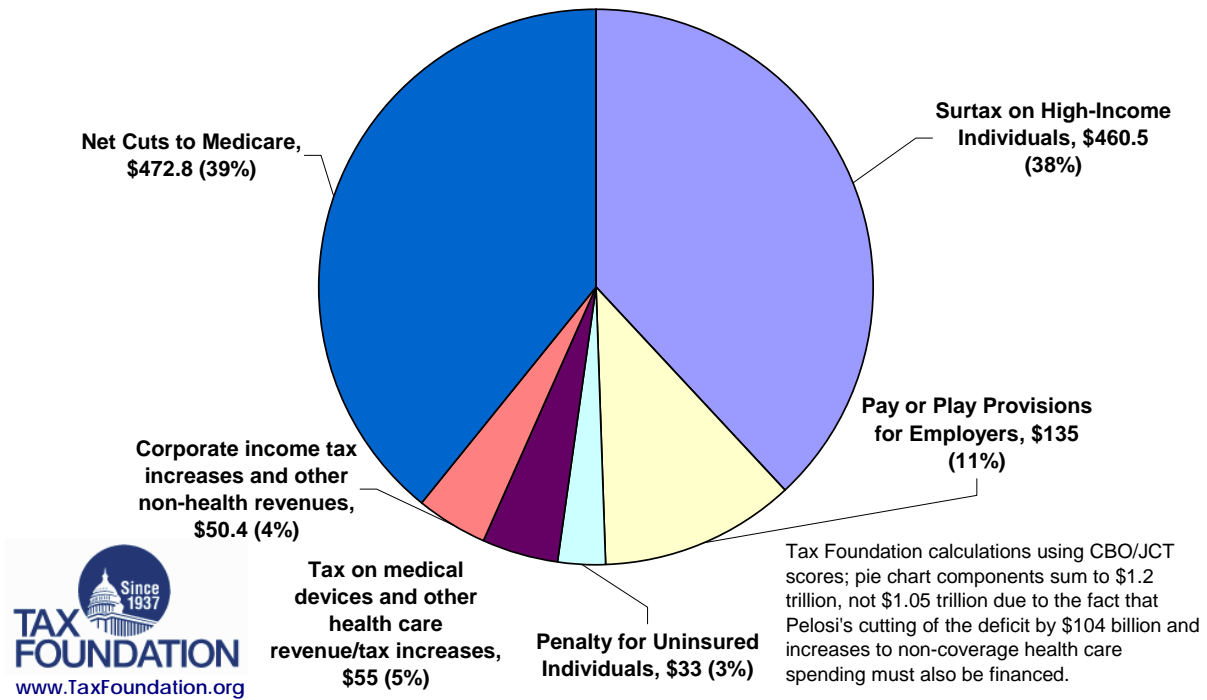
would be on top of the scheduled tax rate hike on the ordinary income of high-income taxpayers that is set to take effect in 2011 (top rate moves from 35 percent to 39.6 percent).

Table 1 and the pie charts below compare the sources of financing for the two plans. The Baucus bill includes \$378 billion in Medicare cuts over the 10-year window (2010-2019), while the Pelosi bill's cuts to Medicare would be nearly \$100 billion greater. Sen. Baucus's proposed tax on expensive health insurance plans would raise approximately \$201.4 billion according to CBO, while the House surtax on high-income tax returns would raise more than double that: \$460.5 billion.

With lower penalties on individuals and companies, and a new tax that raises less, how does Senator Baucus's bill make up the difference? First, it is nearly \$200 billion "cheaper" than the Pelosi bill. That is, its total cost is estimated to be lower than the \$900 billion ceiling that President Obama requested. Fees on the health care sector also make up some of the difference. For example, Sen. Baucus is proposing \$38.6 billion in annual fees on manufacturers and importers of certain medical devices, along with \$60.4 billion in fees imposed on health insurance providers. Finally, Sen. Baucus's proposal, unlike Speaker Pelosi's plan, would raise the AGI threshold for deducting medical expenses from 7.5 percent to 10 percent.

Table 1 Costs and Financing of Baucus and Pelosi Health Reform Bills		
Category	Pelosi Bill (in billions)	Baucus Bill (in billions)
Total new spending on expanding health insurance coverage	\$1,055	\$829
Total deficit reduction	\$104	\$81
Net increases in non-Medicare health care spending (if positive)	\$47.20	\$0
Amount that needs to be financed	\$1,206.20	\$910
Surtax on high-income individuals	\$460.50	\$0
Excise tax on "Cadillac" health plans	\$0	\$201.40
Payments by employers to exchanges and for "pay or play"	\$135	\$23
Penalty for uninsured individuals	\$33	\$4
Tax on medical devices and other health care revenue increases	\$55	\$179.10
Corporate income tax increases and other non-health revenues	\$50.40	\$100.10
Net cuts to Medicare	\$472.80	\$377.80
Net cuts to other health care spending (if positive)	\$0	\$26.30
Amount financed	\$1,206.70	\$911.70
Source: Tax Foundation calculations based upon CBO/JCT scores. Totals do not add due to rounding.		

How \$1.05 Trillion* Pelosi Health Reform Bill Is Financed



How \$829 Billion* Baucus Health Reform Bill Is Financed

