



Questions and Answers Regarding Senator Grassley's Floor Speech Discussing Health Care Reform Plans' Tax Effects on Middle-Class Taxpayers

On October 29, 2009, Senator Grassley delivered a floor speech discussing the Democratic Leadership's Health Care Reform's tax effects on middle-class taxpayers. The text of the speech and charts used in the speech are available at finance.senate.gov.

Question # 1: Republicans have defined the Senate Finance Committee health care reform bill as a tax increase on middle class taxpayers. Democrats have defined the same legislation as a tax cut for middle class taxpayers. Which definition is accurate?

Answer # 1: Before we can answer the question of whether the bill raises taxes on middle class taxpayers, we need to define middle class taxpayers.

Question # 2: What is the definition of the "middle class"?

Answer # 2: There is no clear definition of the middle class. According to FactCheck.Org, "There is no standard definition. In fact, an overwhelming majority of Americans say they are 'middle class' or 'upper-middle class' or 'working class' in public opinion polls." According to a Pew Research poll, 91% of Americans consider themselves lower-middle class, middle-class, or upper-middle class.

Question # 3: What is President Obama's definition of the "middle class"?

Answer # 3: During the 2008 Presidential campaign, then-Senator Obama used two different definitions of the "middle class." On the one hand, then-Senator Obama defined the "middle class" as those married couples making between just \$37,596 and \$66,354 when claiming on his website and in ads that "The Obama plan would cut taxes for middle class families three times more than Senator McCain's plan."

On the other hand, then-Senator Obama used a definition inconsistent with this first definitions in public statements, where he said "If you are making less than \$250,000, then you are definitely somewhere in the middle class." In general, President Obama's budget seems to follow this second definition by preserving the current income tax rate

structure for families under \$250,000 and singles under \$200,000. The Congressional Democratic Leadership budgets, by and large, adopted President Obama's second definition of the middle class.

Question # 4: Have President Obama and the Congressional Democratic Leadership adopted President Obama's tax policy definition of the middle class (that is, families earning less than \$250,000 a year) for purposes of health care reform?

Answer # 4: Yes. For example, on August 3, 2009, President Obama's Press Secretary, Robert Gibbs, in an exchange with reporters said: "Let me be precise. Let me be precise: The President's clear commitment is not to raise taxes on those making less than \$250,000 a year." In his Portsmouth, New Hampshire, town hall meeting on health care reform, the President said – referring to ways to pay for health care reform – "it should not burden people who make \$250,000 a year or less." The Congressional Democratic Leaders have made similar commitments.

Question #5: Have Congressional Republicans agreed with President Obama's definition of the middle class?

Answer #5: Congressional Republicans have not drawn sharp lines on a single definition of middle class. During the debate on the Finance Committee health care reform bill, however, Senators Crapo and Ensign offered amendments that used President Obama's second definition of the middle class. The amendments were designed to prevent tax increases on families earning less than \$250,000 a year in the context of health care reform. The amendments were defeated by a majority composed entirely of committee Democrats.

Question # 6: Are there tax increases in the Finance Committee health reform bill?

Answer # 6: Yes. According to the official Congressional scorekeepers, the Joint Committee on Taxation and the Congressional Budget Office, the bill contains over \$500 billion in tax increases.

Question # 7: Are there tax increases in the Finance Committee bill that would apply to middle class families as defined by President Obama and the Congressional Democratic Leadership (that is, families making less than \$250,000 a year)?

Answer # 7: Yes. The Joint Committee on Taxation performed distribution analyses on the major tax increase proposals in the Finance Committee health care reform bill. The Joint Committee on Taxation concluded that for 2019, roughly 77% of the burden of the tax increases in the Finance Committee health care reform bill would be borne by middle class taxpayers. Furthermore, the Joint Committee on Taxation and Congressional Budget Office officials testified that the insurance industry fee and the medical device fees would be passed through to insurance policy holders and medical device consumers.

Question # 8: During Finance Committee debate, some Finance Committee Democrats described the Finance Committee health reform bill as a net tax cut for middle class taxpayers. Do all middle class taxpayers receive a net tax cut under the Finance Committee bill?

Answer # 8: No. According to the Joint Committee on Taxation, a significant percentage of middle class taxpayers will receive a net tax increase, while others will receive a net tax cut or other Federal benefit. For instance, when the reform bill is in full effect in 2019, millions of middle income taxpayers will face a tax increase, millions of middle income families will receive some tax reduction, and millions of lower middle income taxpayers will receive a benefit that is independent of their tax liability. The non-tax benefit will be in the form of check to the insurance company for a portion of the health insurance premium costs.

Question # 9: So, it would be accurate to say, in terms of what we know from the Joint Committee on Taxation analysis, taxpayers would fall into several different groups, some bearing a tax hike and others not?

Answer #9: Yes. There are really four groups of middle class taxpayers that are treated differently under the Finance Committee bill. One group will receive refundable credits and cost sharing benefits that are not tax relief. Another group may see some tax relief. Another group will bear a large tax increase. And still another group that will bear a tax increase. The Joint Committee on Taxation has not yet performed a distribution analysis with respect to tax increases on that fourth group.

Question # 10: How many middle class taxpayers would face a tax increase?

Answer # 10: According to the Joint Committee on Taxation, the major tax increases in the Finance Committee bill would be paid by middle class taxpayers. For example, in 2019, out of those taxpayers making under \$200,000 per year that are affected by one or more of the three tax provisions that the Joint Committee on Taxation analyzed—the premium tax credit (which is the only provision that provides any benefit to individuals in the bill), the high cost plans tax, and the medical expense deduction tax increase--54% of them get hit with a tax increase. Over 46 million middle class families and individuals would pay higher taxes under the Finance Committee bill.

Question # 11: Does the filing status affect the portions of middle class taxpayers facing a tax increase?

Answer # 11: Yes. Looking further into the data, we find that middle class families who file a joint return are dramatically affected. The Joint Committee on Taxation concludes that of those taxpayers affected by the major tax increases, over 64% of families filing joint returns would face a significant tax increase. Fifty four percent (54%) of middle class taxpayers who file as singles would face a tax increase. Ten percent (10%) of middle class taxpayers who file as head of household would face a tax increase.

Question # 12: How many middle class taxpayers would receive a tax decrease?

Answer # 12: The answer depends on how broadly a “tax decrease” is defined. The health care tax credit is refundable. That means tax return filers receive the tax credit even if they have no income tax liability.

Question # 13: If a tax filer has no income tax liability, how can their taxes go down?

Answer # 13: If someone files a return and owes no income tax, then they receive a Federal benefit. That benefit would be in the form of a Federal check that goes directly to the insurance company that provides the health care coverage. The Joint Committee on Taxation estimates that, for 2019, about 14.5 million families and individuals will receive a benefit that exceeds their income tax liability. In other words, the tax credit would be refundable for about 14.5 million taxpayers. In 2019, this Federal benefit would total \$77.2 billion.

If we compared this government spending through the tax code for some middle class taxpayers against tax increases that other middle class taxpayers would face, we find a net tax cut of \$38.3 billion in 2019. But, if this government spending through the tax code were not counted as true tax reduction – because the Federal benefit is going to taxpayers with no income tax liability – we find a net tax increase of over \$30 billion on middle class taxpayers for 2019.

Question # 14: All right, if there are two kinds of benefits, tax reductions and spending increases in the form of new Federal benefits, let’s focus on the new benefits and the beneficiaries. How widespread are those benefits and how significant are they?

Answer # 14: According to the Joint Committee on Taxation, in 2019, 14.5 million families and individuals will receive Federal health care subsidy benefits. These taxpayers file tax returns but do not pay Federal income taxes. In that year, 12.5 million families and individuals will receive a refundable credit that averages \$6,900 per taxpayer. The other taxpayers would receive other benefits Federal benefits, such as increases in other forms of refundable tax credits.

Question # 15: Does this mean that there are no taxpayers that would receive tax reductions?

Answer # 15: No. According to the Joint Committee on Taxation, there will be about 25 million middle class families and individuals, some of whom will receive some tax relief.

Question # 16: The answer indicates “some” of that group of 25 million middle class families and individuals would receive some tax relief. Does that mean some will in that group will face tax increases, some will face tax decreases, and others might be roughly in the same position?

Answer # 16: Yes. The Joint Committee on Taxation analysis indicates that, as a group, on net, those 25 million middle class families and individuals would receive some tax relief. There will be taxpayers in that group who will pay higher taxes or will be in roughly the same position they are without the Finance Committee bill in effect.

Question # 17: Would it be fair to say that the 25 million figure is an overstatement of the number of middle class families and individuals who would receive tax relief?

Answer # 17: Yes.

Question # 18: If there are 25 million middle class families and individuals and a portion of that group is receiving some tax relief, then doesn't that point verify the Finance Committee health reform bill proponents' assertion that the bill contains a net tax cut for middle class families?

Answer # 18: No. On net, taxes will be raised by about \$30 billion in 2019 on middle class taxpayers. When new Federal benefits paid in the form of refundable credits and other non-tax subsidies are considered, the Finance Committee bill is a net tax increase on middle income taxpayers.

Question # 19: Does the Joint Committee on Taxation analysis discussed so far include all tax increases in the Finance Committee bill that could affect middle class taxpayers?

Answer # 19: No. There are new insurance policy fees that are not included in the Joint Committee on Taxation analysis. In addition, there are new medical device fees that are not included in the Joint Committee on Taxation analysis. The Joint Committee on Taxation has concluded that these fees will be passed on to consumers (resulting in higher premiums and higher costs of health care-related products), but has not yet distributed the burden of those new fees on middle class taxpayers.

In addition, there is a proposal to limit contributions to health care Flexible Spending Arrangements ("FSAs"). There is also a proposal to eliminate tax-free reimbursements for over-the-counter medicines. Neither of these new tax increase proposals is included in the Joint Committee on Taxation's distribution analysis.

Finally, there is an individual mandate to purchase health insurance that is enforced with an excise tax. The Congressional Budget Office has distributed the impact of that tax on individual taxpayers.

Question # 20: Besides the middle class taxpayers already identified by the Joint Committee on Taxation, are there other middle class taxpayers who could be affected by the fees and tax increases not distributed?

Answer # 20: Yes. According to the Joint Committee on Taxation, there will be an additional almost 83 million middle class families and individuals in 2019. In that group, there will be middle class taxpayers burdened by these new fees and taxes. Any taxpayer

who purchases an insurance policy will be affected by the new insurance policy fee. Any taxpayer who purchases a medical device to which the fee applies will be affected by the new medical device fee. Any taxpayer who contributes more than \$2,500 to an FSA will be affected by the new FSA cap. Any taxpayer who purchases over-the-counter medicine out of their own pocket will no longer be allowed to receive tax-free reimbursement for these expenses.