United States Senate
Committee on Finance

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Floor Statement of Senator Chuck Grassley:
Crapo Motion to Commit
the Reid Health Care Reform Bill to the Finance Committee re: tax increases
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I'd like to take a few minutes to talk about Senator Crapo's motion to commit. If Senator Crapo prevails, and he should prevail, the unrelated House bill, along with Senator Reid's amendment, would be sent to the Finance Committee. The Finance Committee would be empowered to return the bill to the full Senate with an amendment that eliminates the heavy taxes in the bill. Senator Crapo has discussed the impact of the Reid amendment on middle class families. I'm going to lay out all the taxes in this bill.

Out in farm country, many of us who work the land often observe big freight trains rumbling across the terrain. Those freight trains are impressive in their power, speed, and length. The partisan force with which the Majority is powering this bill through the Congress is impressive. The speed that is being displayed for such complex legislation is something to behold. Most importantly, the sheer number and breadth of the new taxes in this bill reminds of a very long train. The almost half a trillion in taxes, fees and penalties are so imposing I'm calling them the tax increase express.

The locomotive driving this train is health care reform – driven by the Democratic Leadership. I don't think the American public knows that the bill would impose a half trillion dollars worth of new taxes, fees, and penalties on them.

The American public, who supported President Obama with a majority of votes 13 months ago, heard him loud and clear. They understood our President pledge's that he would not raise taxes on people making less than $250,000 a year. Unfortunately, the Democratic Leadership's bill would violate that clear pledge.

What are the tax increases, fees, and penalties in Senator Reid's amendment? Let me take a moment to highlight them. Every locomotive needs power to run. And the first power source – the first car of the tax increase express – is the so-called "fees" on health insurance companies, medical device manufacturers, and drug manufacturers. There have been numerous studies that have shown that the fees on, for example, health insurers will increase health insurance premiums. Some say premiums will increase by $488 for a family. Other studies say $500. Most members on the other side of the aisle take issue with these studies. They argue that these studies were performed at the request of insurance companies – or conducted by independent experts that have ties to the insurance industry.

Let me ask my Democratic friends this – do you question the work of the Congressional Budget Office and the Joint Committee on Taxation? CBO and JCT have testified that these fees will be passed on to health care consumers. Check the record. No one can dispute it. CBO and JCT have also testified that the fees will increase health insurance premiums. Check the record. No one can dispute it.

My friends in the Democratic Leadership may say that once their health reforms are in place, premiums will go down – net of the fees. They will hail a recent CBO report by highlighting the winners, but ignoring the losers. They will say that these fees won't affect premiums for a vast majority of Americans. But here's the flaw in their assertions. The CBO analyzed premium costs in 2016. What about premiums costs in 2010 or 2013? Why is this question important? The answer is these fees go into effect in 2010. The majority of the Democrats' reforms – which are intended to lower costs – do not go into effect until 2014 – four years from now. So what happens in 2010, 2011, 2012, or 2013? Premiums will go up. Why? Because – for one – the Democrats are adding costs on the health insurance you buy by imposing these fees on health insurers. And they are giving you NO government assistance to help with these added costs.

I would ask my friends in the media to dig a little deeper on this point and report on that. Why? Because the American public doesn't understand that, in the short-term, premiums will go up. Instead, the public is simply hearing some media reports that on a portion of the premiums in 2016 and beyond. That's a very long time from now. The American public doesn't want to wait for their premiums to go down, if they go down at all.

It appears my friends in the Democratic Leadership want the tax increase express to barrel through Congress before the public realizes what health care reform actually means – and that's higher premiums as early as 2010.

Now, let me turn to the second car of the tax increase express. This car is the proposal to restrict the eligibility criteria for claiming the itemized deduction for medical expenses. This proposal says you can no longer deduct expenses that exceed 7.5% of your adjusted gross income. Instead, you can only deduct expenses that exceed 10% of your adjusted gross income. In plain English, this proposal limits the tax deduction you can take for medical expenses. In other words, you will lose a portion of your tax deduction.

Even the New York Times calls proposals that would take away a portion of your tax deduction a tax increase. I ask unanimous consent to enter into the record a February 25, 2009, article. In the top line, the article says, "President Obama will propose further tax increases on the affluent to help pay for…health care reform." I am highlighting this article because the President is also proposing to take away a portion of a person's tax deduction. The President wants to limit the itemized deductions people making more than $250,000 a year can take. The only difference between the two proposals is the medical expense deduction limitation affects people who make less than $250,000 a year.

Don't take my word for it. Data from the Joint Committee on Taxation tells us that – in 2013 – the largest concentration of taxpayers claiming the medical expense deduction earn between $50,000 and $75,000. The analysis shows that a good number of taxpayers between $75,000 and $200,000 also claim the medical expense deduction.

Now, my friends on the other side of the aisle will argue that their government-subsidized tax credit for health insurance would wipe clean any new taxes on those people below 400% of poverty.

They will also argue that people purchasing insurance through the new "exchange" will be protected from catastrophic expenses as a result of annual out-of-pocket limits. For this reason, the Democratic Leadership argues, those middle class taxpayers won't need to rely on the medical expense deduction.

I hate to break it to my colleagues, but CBO estimates that in 2014 only 4% of Americans will be purchasing exchange insurance, and only 3% of Americans will be receiving a tax credit. By 2019 – when the Reid bill is in full effect – only 7% of Americans with exchange insurance will be receiving a tax credit. That leaves a lot of other people below 400% of poverty with higher taxes. And what about those individuals and families above 400% of poverty? These people earn income below President Obama's magic $250,000. And they don't qualify for a tax credit. What they do qualify for is a tax increase. After all, there is a reason why this proposal raises $15 billion over 10 years. That's a lot of money.

Let me now turn to the third car of the tax increase express. This car is the high cost plan tax. The Congressional Budget Office has consistently cited the two most powerful ways to "bend the cost curve" downward:

Cap the tax preference for employer-provided health coverage – or the so-called exclusion; and

Medicare delivery system reforms.

A recent letter sent to the White House by respected economists also contends that placing a limit on high-cost employer plans would slow health care spending and reduce costs. Well, some of colleagues have come out squarely in support a cap on the exclusion. That was an intellectually honest position. My friends the Chairmen of the Budget and Finance Committees took the intellectually honest position. The Democratic Leadership, however, have squarely opposed a cap on the exclusion. They argue that a cap on the exclusion would hurt middle-class workers. But, in a sleight of hand, the Democratic Leadership came up with a proposal that would tax insurance companies for offering high-cost plans. It's a more complicated way of taxing the same workers. It is a sleight of hand, because the Democratic Leadership knows tax will be passed through to the worker. My friends simply didn't want to say that they are taxing the worker directly. So my friends decided to tax them indirectly. So in the end, the worker would be paying the tax. And these workers would be middle-income workers.

Don't take my word for it. JCT testified to the Senate Finance Committee that the high-cost plan tax would be passed on to workers. JCT data also indicates that in 2019, 84% of the revenue generated from the high-cost plan tax comes from individuals and families earning less than $200,000 a year. So whether you agree or disagree with the policy of limiting the tax benefit for employer-provided coverage, middle-class workers would see a tax increase.

The fourth car in the tax increase express carries two new tax increases. The first tax increase is on workers who contribute to a Flexible Spending Arrangement – better known as an FSA. Under the current tax laws, a worker may contribute to an FSA on a pre-tax basis and use those FSA contributions to pay for co-pays and deductibles tax-free. Currently there is no limit on how much a worker may contribute to an FSA. The Reid amendment would limit the contribution amounts to $2,500. Statistics show that the average FSA contribution is $1,800 a year. So this $2,500 limit doesn't sound that bad, right? Wrong – a great number of workers who have serious illnesses contribute significantly more than $1,800. And more than $2,500. On average, these workers earn about $55,000 a year. If I were to connect the dots, I would see a tax increase on workers (1) with serious illnesses who (2) earn $55,000 a year. How? Here's how. These workers would now have to pay taxes on their FSA contribution in excess of $2,500. The Democratic Leadership are taxing health benefits "for the first time."

The second tax increase in this fourth car is the elimination of tax-free reimbursements for over-the-counter medicine. Under the current tax rules, payments for over-the-counter medicine may be reimbursed tax-free if a worker is covered under an FSA or health savings account. The Reid amendment takes this tax benefit away.

The fifth car of the tax increase express is the new Medicare payroll tax. Since the New Deal, the U.S. has put into place several social insurance programs. Included in those programs are Social Security, unemployment insurance, and Medicare. They are all founded on the social insurance concepts. As Senator Moynihan used to remind us, to insure their constitutionality, these programs were designed to be financed with payroll taxes instead of insurance premiums. But to maintain the closest appearance possible to social insurance, the payroll tax looks a lot like a premium. That analogy is very intentional. It is not accidental. It is bedrock to the sustainability and universality of social insurance programs we all support – Social Security and Medicare.

The Reid amendment breaks that precedent, muddies the premium analogy, and could start us on a tax-hike-only journey to dealing with our unsustainable entitlement programs. Let me explain how. The way the payroll tax works now is that every worker pays in based on his or her salary, wages, or small business income. That is a single, simple and consistent tax base. Also, one tax rate applies to that payroll tax base. Now, for the first time, an additional, second tax rate will apply to the payroll tax base.

Also, for the first time in the almost 45 year history of this great social insurance program, Medicare, you have before you a proposal that creates a marriage penalty in the payroll tax. In other words, some married couples will be paying higher payroll taxes due solely to the fact that they are married. This is a direct result of the addition of the second tax rate.

Here’s another matter that boggles the mind. This second tax rate kicks in if your wages exceed $200,000 if you’re single and $250,000 if you’re married. These dollar thresholds are not indexed. Let me repeat that, the tax base is not indexed. Another tax where the tax base is not indexed is the AMT. I think every member of Congress knows the problems there. In the late 1990s, commentators called the AMT the tax system’s “ticking time bomb.” Fortunately, my friend, the Chairman, and I started to defuse the bomb in the 2001 tax legislation. It appears my friends on the other side of the aisle have created another tax system ticking time bomb.

Finally, we have the caboose on this tax increase express. The caboose is the individual mandate penalty tax. I will be short and sweet. It is a tax! President Obama does not want to acknowledge that the penalty for failing to maintain government-approved health insurance is a tax. But it is right here in black and white. The Reid bill amends the tax code by adding a new excise tax. It is payable by those Americans who do not purchase government-approved health insurance. I ask unanimous consent to place section 1501 of the Reid amendment in the record, which adds this new excise tax to our tax laws. The kicker here is that CBO has told Congress that roughly one-half of those Americans that will pay this tax are individuals between 100% and 300% of poverty. These folks earn less than $250,000 a year.

I see the light at the end of the tunnel. Unfortunately, it is the tax increase express. But we can de-rail the Tax Increase Express if we want to. That is why – today – I am supporting Senator Crapo’s motion to commit the Reid amendment to the Senate Finance Committee. Senator Crapo’s motion would require that the Finance Committee report a bill back to the Senate that does not include the tax increases, fees, and penalties included in the Reid bill. Why should my Democratic friends vote in favor of this motion? Because they shouldn’t want the bear the fall-out of legislation that was rushed through Congress like the economic stimulus package was. They shouldn’t want to tell their constituents that they voted in favor of a bill that increased their premiums. They shouldn’t want to vote for a bill that raises taxes on the many, only to provide a benefit to the few. And they shouldn’t want to break President Obama’s pledge not to tax people making less than $250,000 a year.

What my friends should want is real health care reform. The kind of reform that has broad, bipartisan support. I have consistently said that if Congress wants to re-structure one-sixth of our nation’s economy it has be done on a bipartisan basis. That is not happening here. We are debating a partisan bill. A bill that was cobbled together by the Democratic Leadership. A bill that has not received approval from the Senate Finance Committee. I ask my Democratic friends to stop this process foul right now. Vote in favor of this motion so we can do health care reform the right way. On a bipartisan basis. In a transparent and open way. So the American public can understand what we are doing. So the American public can be a part of the process. So we can find a way to reform our health care system without burdening our constituents with higher taxes, fees, and penalties. Let’s reduce the out of control spending in the Reid amendment and find savings within the health care system. Let’s de-rail the Tax Increase Express before it steam-rolls over hard-working Americans. The taxes, fees, and penalties don’t need to be the fuel for this locomotive’s fire. I ask all of my colleagues to support Senator Crapo’s motion to commit the Reid bill to the Finance Committee.