

Financing Health Reform Without Burdening Working Families

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While health care reform will likely save billions of dollars in the long run, it is projected to cost around \$1 trillion or more over the next 10 years. As the financing of the reform must not lead to a greater deficit, several Congressional committees have been examining different means of generating the necessary revenue.

[A recent report by Citizens for Tax Justice \(CTJ\)](#) highlights three proposals that not only meet this challenge, but do so without burdening working families who struggle to make ends meet.

Proposal 1. Treat Investment Income like Wage Income

The current Medicare tax rate is 2.9 percent, with the employee and employer each paying 1.45 percent. Those whose income is unearned (from capital gains, dividends and other investments)¹ pay nothing into Medicare and [benefit from lower tax rates than apply to wage income](#).

Under Proposal 1, the 1.45 percent Medicare tax would also apply to investment income. Furthermore, a higher tax rate of 2.5 percent would apply to both wage and unearned income over \$200,000 (or \$250,000 for married couples). In order to protect seniors relying on retirement accounts and pensions, \$50,000 of their investment income would be exempted from the tax.

Working families in West Virginia would see a very small tax increase under this proposal. The richest one percent of taxpayers, with incomes over \$252,000, would provide the majority of revenue. A West Virginia family making close to the state's median income would have an average tax increase of just \$62 annually. Proposal 1 would likely bring in \$40.5 billion in 2011 and \$500 billion in the next 10 years.

Proposal 2. Limit Itemized Deductions for Wealthy

Under the current system, wealthy taxpayers have an advantage over middle-income taxpayers when they itemize their income tax deductions. Those who fall within the 35 percent tax bracket can deduct 35 cents for every dollar spent on mortgage interest and other included expenses. Those in the 15 percent tax bracket can deduct only 15 cents.

Proposal 2 calls for capping the percentage that wealthy taxpayers can deduct at 28 percent. This would bring in \$20 billion in 2011 and \$260 billion over 10 years. The proposal would cap deductions for only the wealthiest 0.6 percent of West Virginians, and 97 percent of the cost would be paid by the richest one percent of taxpayers.

Proposal 3. Create a Graduated Surcharge on Wealthiest 1%

The third proposal is to create a graduated surcharge, which would recoup some of the massive tax cuts given to the richest one percent in 2001 and 2003. Taxpayers earning over \$280,000 (or \$350,000 for

married couples) would experience surcharge rates ranging from one to three percent under the current proposal by the House Ways and Means Committee.

Proposal 3 is estimated to bring in \$550 billion over 10 years, and will impact only the wealthiest one percent of taxpayers. In West Virginia only 0.5 percent of taxpayers would have to pay the surcharge.

Table 1. Average Tax Increases under each Proposal

Income Group	Make Medicare Tax More Progressive	Limit Itemized Deductions for Wealthy	Create a Graduated Surcharge
Under \$14,000	\$5	\$0	\$0
\$14,001-\$24,000	\$13	\$0	\$0
\$24,001-\$41,000	\$47	\$0	\$0
\$41,001-\$68,000	\$62	\$0	\$0
\$68,001-\$119,000	\$100	\$0	\$0
\$119,001-\$252,000	\$531	\$23	\$0
\$252,001 or more	\$6,729	\$3,510	\$4,873

Source: Institute for Taxation and Economic Policy Microsimulation Model, July 2009

The three proposals highlighted by the CTJ report demonstrate that the means of financing health care reform can lead to budget neutrality without causing greater struggle for working families.

¹ Internal Revenue Service. “Tax Facts About Capital Gains and Losses” & “2009 Form 1040-ES (Tax Rate Schedule)” <http://www.irs.gov/> (Viewed July 15, 2009)

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The West Virginia Center on Budget and Policy focuses on how policy decisions affect all West Virginians, including low- and moderate-income families, other vulnerable populations, and the important community programs that serve them.