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ObamaCare’s Unseen Costs

Taxes will go up under the new health care law—and the costs will be more than you think.

Peter Suderman | October 15, 2010

On Tuesday, the White House decided to fight back against a tax-related rumor about the new health care law. Beginning in 2012, wrote Stephanie Cutter, the administration’s head of health care messaging, employers will have to provide information about the value of your health insurance benefits on your W-2. But, she said, despite rumors to the contrary, “you will absolutely not pay taxes on these benefits.” And then, to drive the point home, she continued:

> For months opponents of health reform have falsely claimed that the Affordable Care Act would lead to the taxation of health care benefits. The claim wasn't true when the rumor first surfaced, it isn't true today and it won't be true tomorrow.

Cutter should have stopped while she was ahead; her larger claim was wrong. As it stands, the Affordable Care Act *will* lead to the taxation of health care benefits. Starting in 2018, high-end health care plans will be subject to a 40 percent excise tax for any benefits that exceed $10,200 for an individual or $27,500 for a family.

Indeed, the Patient Protection and Affordable Care Act is chock full of tax hikes. And those taxes will cost more than you might think.

As health care blogger Avik Roy, working from a list published by Kiplingers, noted recently, the law puts in place new taxes on everything from indoor tanning beds to Medicare prescription drug plans. It adds a Medicare surtax to a high-earner’s wages and increases the income threshold at which individuals can begin to deduct medical expenses on their tax returns. It sets up a top limit for how much employers can deposit into an employee’s flexible spending account tax free and increases the penalty for spending health-savings account funds on items the federal government doesn’t define as health care. And for certain high-earners, it even adds a new tax on expensive residential real estate sales.

And then, of course, there’s the individual mandate, which, according to the administration, was not a tax when making the pitch to voters—but *is* a tax when making the constitutional case in the courts. Convenient!

All those taxes add up. According to the Congressional Budget Office, the health care bill directly calls for $420 billion in new revenue. (When "related provisions" are included, that figures rises to $525 billion.)

Now, those tax hikes were supposed to come along with an estimated $143 billion in deficit reduction. But as economists have long known, taxes impose additional, unseen costs that go significantly beyond their obvious totals. Taxes don't simply transfer money from one activity to another: When Congress imposes a tax on a given activity, it discourages individuals from participating in that activity. That's why taxes are used to discourage certain behaviors. Tax smoking, and people will smoke less. Tax carbon, and individuals and businesses will use less of it.

The resulting decrease in economic activity from these taxes is referred to as deadweight loss. Estimates for deadweight loss on federal taxes range from 14 to 52 cents for each dollar of tax revenue, with some taxes creating more unseen losses than others. But no matter what, larger taxes mean greater losses.

In the case of the health care bill, those losses add somewhere between $157 billion and $229 billion to the law's total cost over the next decade, according to a recent estimate by Christopher J. Conover, a researcher at the Center for Health Policy and Inequalities Research at Duke University. If Conover's estimates, first published in a paper released earlier this week by the Cato Institute, are on the money, those figures more than wipe out the law's $143 billion in scored deficit reduction.

And that's assuming that the rosier projections about the law are true. There's good reason to think those cost figures are probably low: For one thing, the official estimates rely on Congress to slice $455 billion out of the nation's biggest health care entitlements—cuts that even Medicare's own actuary believes may not ever actually occur. Conover further estimates that if Congress were to fill the resulting void by hiking income taxes, that could make the deadweight losses even larger—by $237 billion, and perhaps by as much as $750 billion.

Would knowing all this have changed the outcome of the debate? Conover thinks it might have: "Because Congress does not include the excess burden of taxation in its cost estimates," he writes, "many members of Congress and many of their constituents were not aware of these additional costs. Had they been aware, PPACA may have struck even more members of Congress as not being a good deal, particularly in a weak economy."

It's a nice thought. It's also, unfortunately, too late. At this point, ObamaCare's taxes are law. Seen and unseen, we're stuck with them.

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