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INKWELL

Keeping the Poor in Poverty



by Nicole Kurokawa
January 14, 2010, 11:49am

The Cato Institute's Michael Cannon points out one of the unintended consequences of health care reform legislation: how low-wage workers will be hit with astronomical taxes (you know, the same people the government claims it will be helping) and discouraged from moving up the economic ladder.

[Writes Cannon:](#)

In a new study, I found those implicit marginal tax rates would hover near 70-80 percent over broad ranges of income. In many cases, they would exceed 100 percent, financially penalizing those who try to climb the economic ladder.

The legislation would cause taxes and health insurance premiums to climb higher still, by creating huge financial incentives for healthy people to drop out of the market. ...

Each bill would require low- and middle-income Americans to pay an increasing percentage of their income toward health insurance. In so doing, the bills dispense with the heretofore universally accepted principle that marginal tax rates should only apply to income at the margin. As a result, the "mandate tax" creates marginal rates as high as 53 percent - and that's for people making just \$15,000 per year.

The second feature is the health insurance subsidies tied to the individual mandate. Those subsidies would disappear as income rises. Under the House bill, families of four with an annual income around \$43,000 can lose a \$1,000 subsidy just by earning \$1 over the eligibility cutoff.

The non-partisan Congressional Budget Office writes, "That effect, known as an 'implicit tax,' can lead people to work fewer hours than they otherwise would, in the same way that income and payroll tax rates do." It may also discourage them from "working harder in the hope of winning raises; accepting new positions or responsibilities with higher compensation; or investing in their future earning capacity through education, training, or other means."

Cannon's full study is available [here](#), and worth a read. Health care reform that not only costs more but that creates disincentives for Americans to work hard - way to get the nation back on track, Congress.

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