

CNSNews.com

Stabenow: Middle Class Won't Be Hit By Health Bill's Cut in Tax Deduction for Medical Expenses Because They Don't Itemize Deductions

Monday, October 12, 2009

By Karen Schuberg and Adam Brinkley

(CNSNews.com) – Sen. Debbie Stabenow (D.-Mich.), who serves on the Senate Finance Committee, says that a provision in the committee's health care reform bill that increases the medical expenses a person must incur before they can write them off of their federal income taxes is not a tax increase on the middle-class--and thus a violation of President Obama's promise not to raise taxes on people making under \$250,000 per year-- because middle class people generally don't itemize their deductions and thus aren't able to claim the deduction.

A spokesman for the National Taxpayers Union, however, says Stabenow's assertion is incorrect.

"I believe it's 60 percent of Americans don't itemize their taxes, so they're not able to use that provision," Stabenow told CNSNews.com.

Peter Sepp, vice president of communications for the National Taxpayers Union, however, contradicted Sen. Stabenow, saying that IRS data for 2007 show that almost all of the people taking the itemized income tax deduction for medical expenses made less than \$250,000 per year, and that a majority made less than \$50,000 per year.

"Now out of the 10.6 million individuals who claimed the medical expense itemized deduction on their tax year 2007 returns, a total of 5.9 million of that 10.6 million reported AGI of \$50,000 or less," said Sepp.

"By definition, this tax would definitely affect the middle class—virtually all of it," Sepp said. "When all but 50,000 of the 10.6 million people claiming the medical expense deduction make less than \$250,000c -- the math is inescapable here."

The provision, buried on page 257 of the committee's 259 page markup, the passage reads: "(T)his provision increases the threshold for the deduction from 7.5 percent of (Adjusted Gross Income) to 10 percent of AGI for regular income tax purposes."

Under current law, Americans can write their medical bills off of their income taxes if they exceed 7.5 percent of their income, but this new provision would mean that medical bills must exceed 10 percent of a person's total income to be deducted.

During a conference call on health-reform last week, CNSNews.com asked Stabenow if the provision to raise the threshold would break President Obama's pledge to not raise taxes on middle-class families -- those earning less than \$250,000 a year.

“When we look in total at what we’re doing – (expanding) the Medicaid safety net, the tax provisions to help small businesses, and individuals (being) able to purchase insurance that had not been able to do before . . . (there) will be much less impact or need for that provision than there currently is today,” Stabenow claimed.

Because senior citizens--who typically have higher medical expenses--would be exempt from the provision, most people will not be affected, Stabenow claimed.

“The only way someone’s able to use this is itemizing their deductions,” she said, “and most Americans don’t do that. And so when you take out seniors, and when you look at all the other reforms, the people that would be left that might use this would be upper income people.”

Stabenow denied that the provision would target sick people by raising their taxes when an aim of the health care plan is to lower medical costs.

“When we then look at the fact that the federal government is going to reinsure or cover costs of any claim above \$15,000--between \$15,000 and \$90,000--under our reinsurance provision, the federal government would pay up to 80 percent of that, and when you look at the other provisions in the bill, of making insurance more affordable, and the tax incentives and so on, very few people would be impacted by this change, and they would tend to be people with very high income,” the senator said.

Penalizing the Sick

Michael Cannon, a scholar at the libertarian Cato Institute, told CNSNews.com that raising the threshold amounts to imposing a tax, and the argument that the tax would only affect the rich misses the point: it would penalize the sick--rich or poor.

“It is a tax break that you only get if your medical expenses exceed a certain percentage of your income,” he said, “so if you say that it only hits rich people, what you’re admitting is it only hits really, really sick rich people.”

The National Taxpayers Union's Sepp challenged Stabenow’s claim that “most Americans” do not itemize their deductions--and that the middle class wouldn’t be affected.

“Almost certainly most homeowners with two earners in the household itemize because mortgage and trust and property taxes are huge deductions,” Sepp told CNSNews.com.

“Clearly, single folks, renters, low-income folks don’t itemize, but that doesn’t necessarily mean that middle-class folks don’t either. (Stabenow) is kind of playing with words there,” Sepp said.

“Very clearly, some middle-class individuals who have catastrophic medical events qualify for the deduction now,” he said.

Moreover, the threshold for medical deductions is already tough enough to meet, Sepp said.

"When you think about it, if you make \$50,000 in adjusted gross income, you had to have spent more than \$3,000 of it on out-of-pocket medical expenses. That's a heck of a lot. So you're dealing with a limited universe of people taking the deduction to begin with," he said.

"This will certainly make it harder, and it will definitely affect some people making under \$250,000 a year," Sepp said. "The numbers won't be huge because the number of people who take the deduction is not gigantic in the first place. But some middle class individuals definitely will be affected."

Citing IRS data for taxes filed in the calendar year 2008, Sepp said that in 2007, 50.5 million returns out of 143 million--a little over one-third--contained itemized deductions.

Of those, he said, 10.6 million claimed medical and dental expenses.

"Now out of the 10.6 million individuals who claimed the medical expense itemized deduction on their tax year 2007 returns, a total of 5.9 million of that 10.6 million reported AGI of \$50,000 or less."

That means over half of those who used the deduction qualify as middle-class, Sepp said.

"Now if we want to go to the top of the scale, \$250,000 or more out of the 10.6 million claiming medical and dental expense deductions, 50,600 were claims submitted by folks with more than \$250,000 of AGI," he said.

"By definition, this tax would definitely affect the middle class—virtually all of it," Sepp said. "When all but 50,000 of the 10.6 million people claiming the medical expense deduction make less than \$250,000c -- the math is inescapable here."

"Those who want to deny it need to pay a phone call to the IRS. It's as simple as that," Sepp said.

Transcript:

CNSNews.com: Under current law, individuals who spend 7.5 percent of their AGI on medical expenses can count it as a deduction. The Senate Finance Committee health care package includes a provision that "increases the threshold for the deduction from 7.5 percent of AGI to 10 percent of AGI for regular income tax purposes."

So people who may have had that deduction no longer would under this provision. My question is, would this provision to raise the threshold from 7.5 percent to 10 percent break Obama's pledge to not raise taxes on middleclass families, those earning less than \$250,000 a year?

Sen. Debbie Stabenow (D-Mich.): First of all, one of the very popular amendments we accepted in committee was to make sure that seniors are exempted from that, and then when we look in total at what we're doing, expanding Medicaid safety net, the tax provisions to help small businesses, and individuals be able to purchase insurance that had not been able to do before, when we look at the other coverage changes and so on, it will be much less impact or need for that provision than there currently is today.

We have a reinsurance for high cost, early retirees, that both health committee and finance shall address that, making sure that early retirees 55-64 don't hit those costs you're talking about. And so, the bill goes a long way to address this.

And the second thing I would say is that the only way someone's able to use this is itemizing their deductions, and most Americans don't do that. And so when you take out seniors, and when you look at all the other reforms, the people that would be left that might use this would be upper income people.

CNSNews.com: An aim of the health-care plan is to lower medical costs. But would this provision target sick people by raising taxes for people with health care expenses?

Sen. Deborah Stabenow (D-Mich.): I would say again, no. I mean, what we're talking about is, I believe it's 60 percent of Americans don't itemize their taxes so they're not able to use that provision. Of those who tend to have higher expenses that might use it, the majority of them are senior citizens who are exempt from this provision. So when we then look at the fact that the federal government is going to reinsure or cover costs of any claim above \$15,000, between \$15,000 and \$90,000, under our reinsurance provision, the federal government would pay up to 80 percent of that, and when you look at the other provisions in the bill, of making insurance more affordable, and the tax incentives and so on, very few people would be impacted by this change, and they would tend to be people with very high income.

[Like this story? Then sign up to receive our free daily E-Brief newsletter](#)

All original CNSNews.com material, copyright 1998-2009 Cybercast News Service.