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Senate health care bill creates new marriage penalty

Stephen Dinan and David M. Dickson THE WASHINGTON TIMES

Senate Democrats' health care bill would create a new marriage penalty by imposing a tax on individuals who make $200,000 annually but hitting married couples making just $50,000 more.

That's one of 17 new taxes imposed by the bill, which also creates a levy on elective plastic surgery - some call it "botax" - and places a 40 percent excise tax on those who have generous health care plans.

"If you have insurance, you get taxed. If you don't have insurance, you get taxed. If you need a life-saving medical device, you get taxed. If you need prescription medicines, you get taxed," said Senate Minority Leader Mitch McConnell, Kentucky Republican, who is leading the fight against the bill.

The new taxes would be used to fund an expansion of government medical programs and to fund subsidies for lower-income individuals to buy insurance, extending health care coverage to 94 percent of eligible non-elderly Americans.

Democrats said the bill will offer lower health care costs for small businesses and families, and said the new taxes are aimed at upper-income earners, so costs would not go up for the middle class. They said that makes good on President Obama's campaign pledge not to increase taxes on families making less than $250,000 a year, which explains the reason for the new marriage penalty.

"We wanted to make this provision consistent with the president's pledge not to increase taxes on singles making under $200,000 and married couples making under $250,000," said

Jim Manley, a spokesman for Senate Majority Leader Harry Reid, who wrote the Senate bill.

"Yes, this structure can create a 'marriage penalty' for some couples. It also creates a 'marriage bonus' for others," he said. "A married couple with one wage earner can earn up to $250,000 without facing this higher tax, whereas a single person in the same job with the same pay would be hit by it."

But a married couple in which each earner makes $150,000 would be hit with the tax, whereas an unmarried couple living together with the same incomes would not.

Ryan Ellis, tax policy director at Americans for Tax Reform, said the new marriage penalty comes on top of an existing one that's always been part of the payroll tax, which funds Social Security and Medicare.

He said when the payroll tax was created to fund Social Security during the New Deal, lawmakers didn't anticipate the freelance of two-income families, so there's always been a sort of marriage penalty for couples whose incomes topped the single-earner income taxation level.

Such penalties have been thorny issues in the tax codes for years.

The new tax would rise from 1.45 percent to 1.95 percent for singles making $200,000 a year and couples making $250,000.

Congress earlier this decade tried to reduce the marriage penalty in the income tax code by adjusting the standard deduction for single taxpayers and married couples and expanding the 15 percent tax bracket for couples filing joint tax returns.

Mr. Ellis said another problem with Democrats' plan is that the new payroll tax is not indexed for inflation, even though wage growth is about 5 percent a year. That means the tax will capture an ever-larger share of taxpayers.

"Fifteen years from now, someone who today is earning $100,000, if their wage growth just grows on average, 15 years from now they're going to be paying this tax," Mr. Ellis said.

The plastic surgery tax could increase the cost of nips and tucks by imposing a 5 percent tax on the cost of such surgeries. The tax is slated to go into effect Jan. 1 and is expected to raise $5.8 billion over 10 years. It would cover all elective procedures, whether covered by insurance or not, but would not be levied on surgeries intended to repair personal injuries.

Some of the taxes are already running into political trouble with Democrats' core supporters.

The Teamsters union on Thursday blasted the proposal to impose a 40 percent excise tax on "Cadillac" high-value health insurance plans, saying it would threaten the benefit-rich coverage unions have fought hard to win for their workers.

"Any claim that it affects only 'Cadillac' plans and thus the wealthy is misleading," said Teamsters President James P. Hoffa Jr. "This tax will fall on one-third of Americans in 10 years. ... The idea that this tax will curtail rising premiums is just dead wrong."

The tax is slated to go into effect in 2013 and would apply to individual policies worth $8,500 or family policies worth $23,000. A slightly higher threshold would apply for early retirees and those in high-risk professions.

Budget analysts said they expect that employers and consumers will start to ditch the high-value plans and instead pay the money to workers in higher wages and salaries, so most of the nearly $150 billion in revenue on which Democrats are counting from the provision would come from higher income taxes.

"Put a tax on my high-premium health plan and suddenly it's not such a good deal," said Roberton Williams, a senior fellow at the Tax Policy Center. "I'd rather have the cash."

Several relatively small tax increases will be aimed at health savings accounts and medical savings accounts. One will change the definitions for medical expenses that qualify as itemized deductions. Another will raise the penalties for withdrawing funds from these vehicles. A third would limit health-related flexible spending arrangements.

"All of these changes are designed to make health savings accounts less attractive and cripple consumer-directed health care plans," said Michael Cannon, director of Health Policy Studies at the Cato Institute. Altogether, they would raise about $20 billion through 2019.

Jennifer Haberkorn and S.A. Miller contributed to this report.