

SUMMARY COMPARISON OF SELECTED PROVISIONS
IN S. 1757, S. 1775, S. 1579, S. 1770, AND S. 1743
RELATING TO THE TAX TREATMENT OF HEALTH CARE

Scheduled for a Hearing

Before the

SENATE COMMITTEE ON FINANCE

on April 26, 1994

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

April 26, 1994

JCX-4-94

Item	Present Law	S. 1757(Mitchell) S. 1775(Moynihan)	S. 1579 (Breux)	S. 1770 (Chafee)	S. 1743 (Nickles)
1. Exclusion for employer-provided health care	Employer-provided health care is excluded from income and payroll taxes. There is no limit on the exclusion.	The exclusion applies only with respect to the comprehensive benefit package provided under the bill, including coverage of cost-sharing amounts. Supplemental coverage is includible in income. Health care cannot be provided under a cafeteria plan.	The bill retains the present-law exclusion for employer-provided health benefits and extends it to amounts paid by a partnership or a subchapter S corporation for health care for its partners or shareholder-employees.	The exclusion applies only to the extent the cost of the coverage does not exceed the cost of the average premium for the lowest priced one-half of standard benefit packages available in the health care coverage area (the "applicable dollar limit"). Separate limits apply for each class of enrollment based on the age of the principal enrollee.	The exclusion for employer-provided health care is repealed.
2. Employer deduction	Businesses can deduct employer-provided health care as a business expense.	Retains present law.	Retains present law.	The employer deduction for employer-provided health care for any employee is limited to the applicable dollar limit for the employee.	Retains present law.
3. Excise tax on employer-provided health care	No provision.	Retains present law.	The bill imposes a 34 percent excise tax on employers with excess health expenses. Excess health expenses include all health plan expenses that are not attributable to coverage under an accountable health plan (AHP). In addition, expenses attributable to coverage under an AHP are excess health expenses (1) if the employer's contribution is not uniform for a premium class regardless of which plan is selected, (2) if, in the case of an employer with 100 or few employees, the employer contribution is not made for coverage through a health plan purchasing cooperative (HPPC), and (3) to the extent	Retains present law.	Retains present law.

Item	Present Law	S. 1757(Mitchell) S. 1775(Moynihan)	S. 1579 (Breaux)	S. 1770 (Chafee)	S. 1743 (Nickles)
4. Deduction for health insurance expenses of self-employed individuals	<p>Present law does not have a special deduction for the health insurance expenses of self-employed individuals. However, prior to January 1, 1994, self-employed individuals could deduct 25 percent of the cost of health insurance expenses for themselves and their spouses and dependents.</p>	<p>After the provisions of the health care reform portions of the bill are effective, the bill provides a permanent deduction for self-employed individuals of up to 100 percent of the cost of the comprehensive benefit package. The deductible percentage for self-employed individuals who do not pay 100 percent of the weighted average premium (as determined under the bill) for each of their employees would be reduced to the lowest percentage paid by the individual for the health coverage of any of its employees. The 25-percent deduction continues until the 100 percent deduction becomes effective.</p>	<p>the expenses for a particular employee exceed the employee's reference premium rate. The reference premium rate is the lowest premium for a plan offered in the HPPC area for the individual's premium class.</p> <p>The bill extends the 25-percent deduction through 1994. (A drafting change may be needed to accomplish this intent.) For 1995 and subsequent years, the bill provides a permanent deduction for 100 percent of the cost of coverage under an AHP to the extent the expenses do not exceed the reference premium rate for the individual.</p>	<p>After the health care reform provisions of the bill are effective, the bill provides a permanent 100-percent deduction for the cost of coverage purchased from a qualified health plan, up to the applicable dollar limit. The bill extends the 25-percent deduction until the 100-percent deduction becomes effective.</p>	<p>Retains present law. (A drafting change may be needed to accomplish this intent.)</p>

Item	Present Law	S. 1757(Mitchell) S. 1775(Moynihan)	S. 1579 (Breau)	S. 1770 (Chafee)	S. 1743 (Nickles)
5. Individual deduction for medical expenses	Individuals who itemize deductions may deduct amounts paid during the year for medical care of the taxpayer, and the taxpayer's spouse and dependents, to the extent the total of such expenses exceeds 7.5 percent of the taxpayer's adjusted gross income.	Retains present law.	The bill permits individuals to deduct from gross income the cost of coverage under an AHP up to the reference premium rate for the individual. The amount deductible is reduced by amounts paid by any other entity for such coverage (e.g., an employer or governmental entity). The present-law rules continue to apply to other medical expenses.	The bill permits individuals to deduct from gross income the cost of coverage under a qualified health plan up to the applicable dollar limit for the individual. The amount deductible is reduced by amounts paid by any other entity for such coverage. The present-law rules continue to apply to other medical expenses.	The bill repeals the itemized medical expense deduction.
6. Tax credit for health care expenses	No provision.	No provision.	No provision.	No provision.	The bill provides a refundable tax credit for persons enrolled in a federally qualified health insurance plan for health insurance premiums and other medical care. The amount of the credit is the sum of (1) 25 percent of expenses that do not exceed 10 percent of adjusted gross income (AGI), (2) 50 percent of expenses that exceed 10 but not 20 percent of AGI, and 75 percent of expenses that exceed 20 percent of AGI. The credit can be obtained on an advance basis in a manner similar to the way in which the earned income tax credit is provided on an advance basis.

Item	Present Law	S. 1757(Mitchell) S. 1775(Moynihan)	S. 1579 (Breaux)	S. 1770 (Chafee)	S. 1743 (Nickles)
7. Medical savings accounts	<p>No provision. However, present law provides taxpayers with some ability to pay for unreimbursed medical expenses on a tax-favored basis through flexible spending arrangements (FSAs) and individual retirement arrangements (IRAs).</p> <p>FSAs are reimbursement accounts or similar arrangements under which an employee can be reimbursed for health care expenses not covered by insurance. Amounts remaining in an FSA at the end of the year must be forfeited; they cannot be used for expenses in a subsequent year.</p> <p>Individuals can make deductible contributions to an IRA of up to \$2,000 per year. Amounts withdrawn from an IRA can be used for any purpose, including to pay medical expenses. Amounts withdrawn from IRAs are includible in income and subject to an additional 10 percent excise tax if the withdrawal is made before age 59-1/2. The 10-percent additional tax does not apply to amounts that would be deductible medical expenses if the individual itemized deductions.</p>	No provision.	No provision.	<p>Individuals covered by a catastrophic health plan are permitted to deduct contributions to a medical savings account (MSA). The maximum deductible contribution is the excess of (1) the applicable dollar limit for the individual over (2) amounts paid by or on behalf of the individual for the catastrophic health plan. Amounts contributed to an MSA are not taxed until withdrawn. Withdrawals that are used for medical care are excluded from gross income. Withdrawals that are not used for medical are includible in gross income and are subject to additional taxes.</p>	<p>Individuals are permitted a nonrefundable tax credit equal to 25 percent of contributions to an MSA up to certain limits. The maximum tax credit is 25 percent of the sum of (1) \$3,000 and (2) \$500 for each dependent covered by the MSA. Amounts contributed to an MSA are not subject to tax until withdrawn. Withdrawals that are used for medical care are excluded from gross income. Withdrawals that are not used for medical care are includible in gross income and are subject to additional taxes.</p>