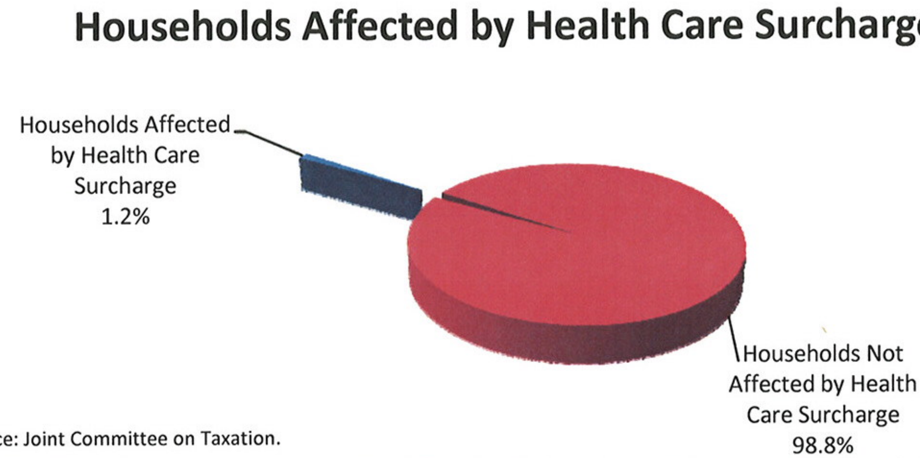
Health Care Surcharge

Would Not Affect 99% of Households

- The nonpartisan Joint Committee on Taxation has estimated that the health care surcharge would only apply to the top 1.2% of all households in the United States. **The health care surcharge would have no effect on 98.8% of all households in the United States**.



Data Source: Joint Committee on Taxation.

- The 1.2% of households that would be affected by the health care surcharge earn approximately 24% of all the income earned in the United States, a fact that is a stark representation of growing income inequality in this country.

- The health care surcharge only applies to income earned in excess of $350,000. If the health reforms included in the bill achieve projected cost savings, **families making between $350,000 and $1,000,000 will need to contribute less than 1% of their annual income to help provide access to affordable health care for all Americans**.

  - A family making $350,000 would not owe any surcharge at all.
  - A family making $400,000 would contribute $500 to help provide access to affordable health care for all Americans – 0.13% of their annual income.
  - A family making $500,000 would contribute $1,500 to help provide access to affordable health care for all Americans – 0.3% of their annual income.
  - A family making $1,000,000 would contribute $9,000 to help provide access to affordable health care for all Americans – 0.9% of their annual income.

- The nonpartisan Congressional Budget Office reports that the wealthiest 1% of households pays 1.6% of their income in payroll taxes while the average working family pays 7.5%.

Prepared by Ways and Means Committee Staff

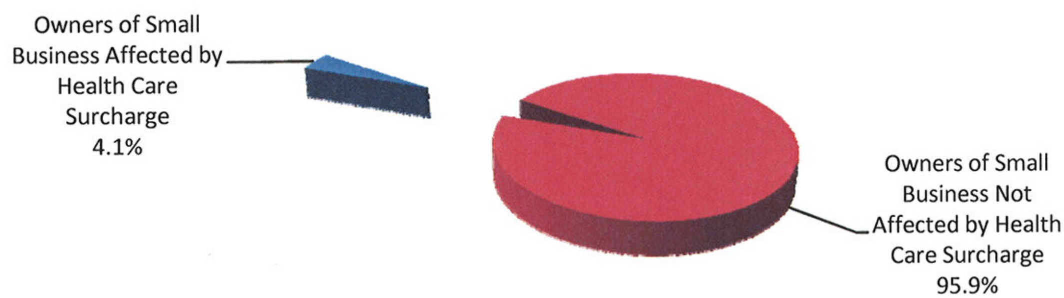
Health Care Surcharge

Would Not Affect 96% of Small Businesses

- Using the broadest definition of a small business owner (i.e., any individual with as little as $1 of small business income), the nonpartisan Joint Committee on Taxation has estimated that only 4.1% of all small business owners would be affected by the health care surcharge. **The remaining 95.9% of small business owners would be completely unaffected by the health care surcharge but would benefit from the insurance market reforms in the bill.**

- When the Joint Committee on Taxation looked closer at these 4.1% of small business owners, **half of these individuals earned less than one-third of their income from small businesses.**

Small Business Owners Affected by Health Care Surcharge



Data Source: Joint Committee on Taxation.

- Small businesses have much to gain from the House proposal. Small businesses in particular will benefit from the insurance market reforms in the House proposal. Small businesses have small numbers of employees, and thus are at a disadvantage under the current insurance market rules that allow insurance companies to charge premiums based on employee medical history. The insurance market reforms in the House proposal will prohibit this practice.

- In addition, a substantial number of small businesses would benefit from a new tax credit included in the bill. The House proposal does not require a small business to make a contribution to fund the health care costs of low- and moderate-income working families if the small business chooses not to offer employee health insurance. If the small business does provide coverage to its employees, the House proposal will provide a tax credit of up to 50 percent of the employer's coverage costs.

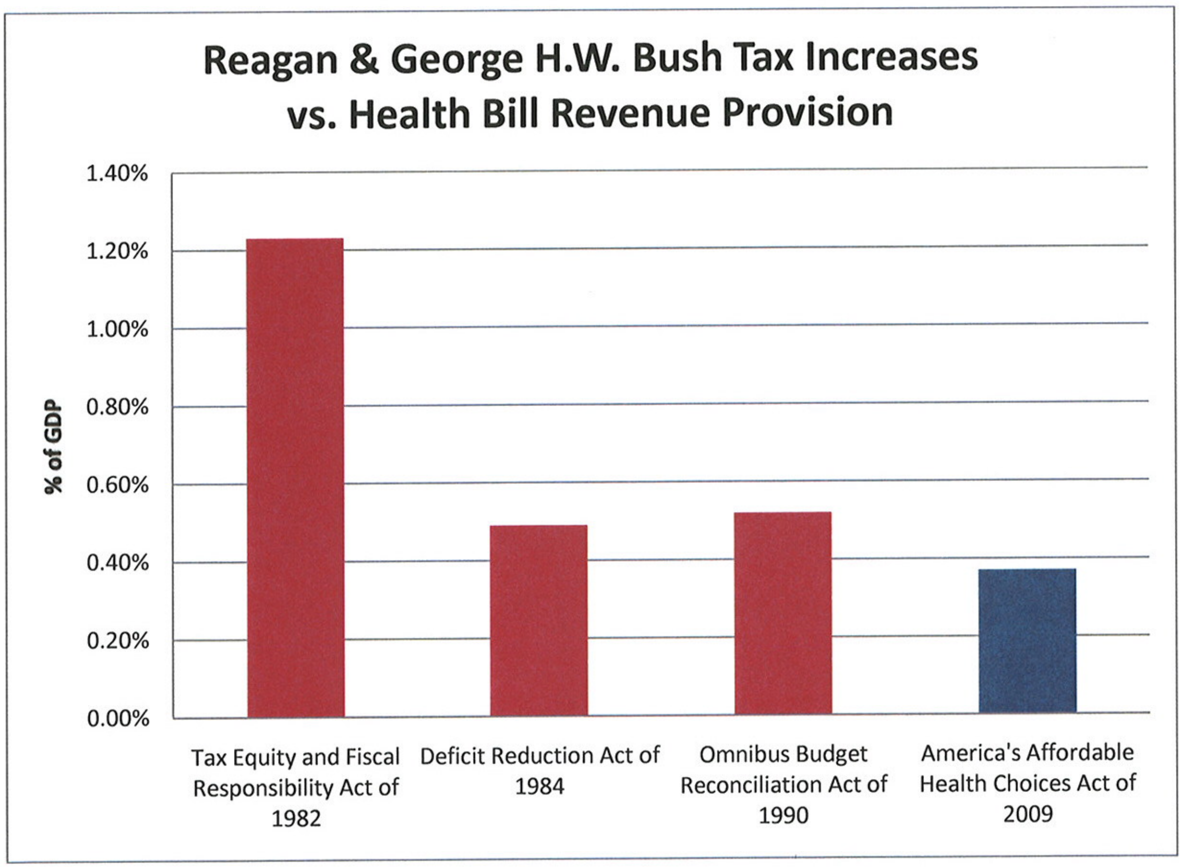
Prepared by Ways and Means Committee Staff

Health Bill Would Raise Less Revenue than Reagan and Bush Tax Increases

The *America's Affordable Health Choices Act of 2009* would provide all Americans with access to affordable health coverage without imposing a tax increase on working families. The cost of providing health insurance is offset through a combination of spending reductions, reforms and by requiring the top 1.2% of earners to pay a health care surcharge.

The Republicans have misleadingly claimed that the bill would enact the largest tax increase in history. Even in recent terms, this claim is false. **President Reagan and President George H.W. Bush both enacted several tax increases that raised more revenue (as a share of GDP) than the health reform bill.**

Using numbers prepared by the President George W. Bush's Treasury Department and the nonpartisan staff of the Joint Committee on Taxation, one can easily see that the *America's Affordable Health Choices Act of 2009* would raise a fraction of the revenue raised by these Republican Presidents.



Source: "Revenue Effects of Major Tax Bills," Office of Tax Analysis Papers (2006). Joint Committee on Taxation.

Prepared by Ways and Means Committee Staff

Revenue Provisions Included in the America's Affordable Health Choices Act of 2009

General Provisions

Health care surcharge on the top 1.2% of earners. The bill would require the top 1.2% of earners – households with adjusted gross income in excess of $350,000 (married filing a joint return) and $280,000 (single) – to contribute towards the cost of providing access to affordable health care for all Americans through a new health care surcharge. According to the nonpartisan Joint Committee on Taxation, this surcharge would have no impact on 98.8% of households in the United States and would only affect, at most, 4.1% of all small business owners in the United States. The health care surcharge would be imposed at progressive rates so that for married households income in excess of $350,000 and below $500,000 would be subject to a surcharge of 1%, income in excess of $500,000 and below $1 million would be subject to a surcharge of 1.5% and income in excess of $1 million would be subject to a surcharge of 5.4%. The first two rates would be increased to 2% and 3%, respectively, in the event that certain health cost savings are not achieved. *This proposal is estimated to raise $544 billion over 10 years.*

Delay implementation of worldwide allocation of interest. In 2004, Congress provided taxpayers with an election to take advantage of a liberalized rule for allocating interest expense between United States sources and foreign sources for purposes of determining a taxpayer's foreign tax credit limitation. Although enacted in 2004, this election was not available to taxpayers until taxable years beginning after 2008. Last year, the House of Representatives delayed the phase-in of this new liberalized rule for two years (for taxable years beginning after 2010) as part of the *Housing and Economic Recovery Act of 2008* (P.L. 108-289). The bill would further delay the phase-in of this new rule for an additional nine years (for taxable years beginning after 2019). During the 110th Congress, the House of Representatives voted numerous times on a bipartisan basis to delay the implementation of this future tax benefit as part of: H.R. 3920 by a vote of 264 to 157 (with 38 House Republicans joining 226 House Democrats in support); H.R. 3221 (May vote) by a vote of 322 to 94 (with 95 House Republicans joining 227 House Democrats in support); H.R. 3221 (August vote) by a vote 241 to 172 (with 26 Republicans joining 215 Democrats in support); and H.R. 6049 by a vote of 272-152 (with 45 House Republicans joining 227 House Democrats in support). *This proposal is estimated to raise $26.1 billion over 10 years.*

Prevention of Tax Avoidance

Limitation on treaty benefits for certain deductible payments. The bill would prevent foreign multinational corporations incorporated in tax haven countries from avoiding tax on income earned in the United States by routing their income through structures in which a United

States subsidiary of the foreign multinational corporation makes a deductible payment to a country with which the United States has a tax treaty before ultimately repatriating these earning in the tax haven country. This provision has been modified from a previous version approved by the House of Representatives as part of H.R. 2419 (110th Congress) by a vote of 231 to 191 (with 19 House Republicans joining 212 House Democrats in support) to ensure that foreign multinational corporations incorporated in treaty partner countries will not be affected by this provision. *This proposal is estimated to raise $7.5 billion over 10 years.*

Clarification of the economic substance doctrine. The economic substance doctrine is a judicial doctrine that has been used by the courts to deny tax benefits when the transaction generating these tax benefits lacks economic substance. The courts have not applied the economic substance doctrine uniformly. The bill would clarify the manner in which the economic substance doctrine should be applied by the courts. However, the bill does not change current-law standards used by courts in determining when to utilize an economic substance analysis. Under the provision, in any case in which the economic substance doctrine is relevant to a transaction, the economic substance doctrine would be satisfied only if (1) the transaction changes in a meaningful way (apart from federal income tax consequences) the taxpayer's economic position, and (2) the taxpayer has a substantial non-federal tax purpose for entering into such transaction. The provision also imposes a 20% penalty on understatements attributable to a transaction lacking economic substance (penalty increased to 40% in the case of transactions in which the relevant facts affecting the tax treatment of the transaction are not adequately disclosed). This provision was previously approved by the House of Representatives as part of H.R. 4351 (110th Congress) by a vote of 226 to 193. *This proposal is estimated to raise $3.6 billion over 10 years.*