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SENATE REPUBLICAN POLICY COMMITTEE

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Summary of President Bush's Health Tax Reform Plan

During his State of the Union address, President Bush laid out a plan to broaden the availability of health plans to Americans by reforming the current tax treatment of health care. The President's plan has two components: (1) reforming the tax code with a standard deduction for health insurance; and (2) encouraging states to make affordable private health insurance available to their uninsured citizens.

The President's plan is intended to provide more affordable, more accessible, and more flexible health coverage within the private market. The first component of the plan addresses the fact that the current system provides unequal treatment of health insurance, giving a greater tax advantage to those who obtain their health insurance from their employers than those who do not. The second component of the President's plan addresses the inefficient way that health care is provided to the uninsured. The plan gives the states greater incentives to provide basic, private insurance to their uninsured citizens, especially those of low incomes and those who are hard to insure.

Component #1: Reforming the Tax Code with a Standard Deduction for Health Insurance.

- The President's plan reforms the tax code to give all Americans who have private health insurance policies a standard deduction from their tax liability for health insurance.
    - This standard deduction would work much like the deduction for dependents on a tax return.
    - The deduction applies regardless of the policy's cost and regardless of whether the policy was purchased individually or through an employer.

- The plan allows a $15,000 deduction for family health insurance coverage and a $7,500 deduction for single health insurance coverage. The average cost of health insurance is well below those amounts. For example, the average cost of a family policy is about $11,500.

- It provides that insured families will pay no income or payroll taxes on their first $15,000 of compensation while individuals will pay no income or payroll taxes on their first $7,500 of compensation.
    - However, under the President's plan, health insurance would now be considered taxable income. Currently, employer-sponsored insurance is tax free, but those individuals who have to purchase coverage on their own do not get this tax advantage.

- The President's plan is budget neutral over ten years.
    - The amount of the standard deduction will increase by the Consumer Price Index each year.
    - The Treasury Department estimates that the proposal would reduce income and payroll taxes (when the deduction is greater than most premiums) in the near term and raise revenues in the out years (because the deduction will rise more slowly than health insurance premiums that historically have a higher rate of inflation).

- The President's plan is estimated to reduce taxes for roughly 80 percent of those who are covered under employer-provided policies.
    - Twenty percent of insured workers will see a tax *increase*; however, this group is limited to those with the most expensive policies, and these workers could offset the tax by adjusting their compensation to obtain lower premiums and higher wages.

- The Treasury Department estimates that the President's health tax reform will result in an increase of 5 million Americans being covered.

- The effective date of the President's proposal would be January 1, 2009.

Component #2: Encouraging States to Make Affordable Private Health Insurance Available to Their Citizens.

- The President's stated goal is to ensure that a basic and affordable insurance plan is available in *every* state — and so to every American. Currently, there are 47 million Americans uninsured, and while the abovementioned health tax proposal is estimated to insure 5 million more Americans, there is no current estimate for how many additional uninsured might be insured through this new state initiative.

- The President's plan provides the "Affordable Choices Initiative" that will direct Federal funding to States to assist them in helping the poor and hard-to-insure citizens afford private insurance.
    - The Secretary of Health and Human Services (HHS) would be given authority to redirect Federal grants to needy individuals in eligible States.
    - The grants would assist States in their efforts to insure low-income individuals.

- The Federal Government will continue to provide coverage through Medicare, Medicaid, and State Children's Health Insurance Program (SCHIP).

- State participation would be voluntary, and each State would design its own program, subject to the approval by the Secretary of HHS.