JOINT ECONOMIC COMMITTEE

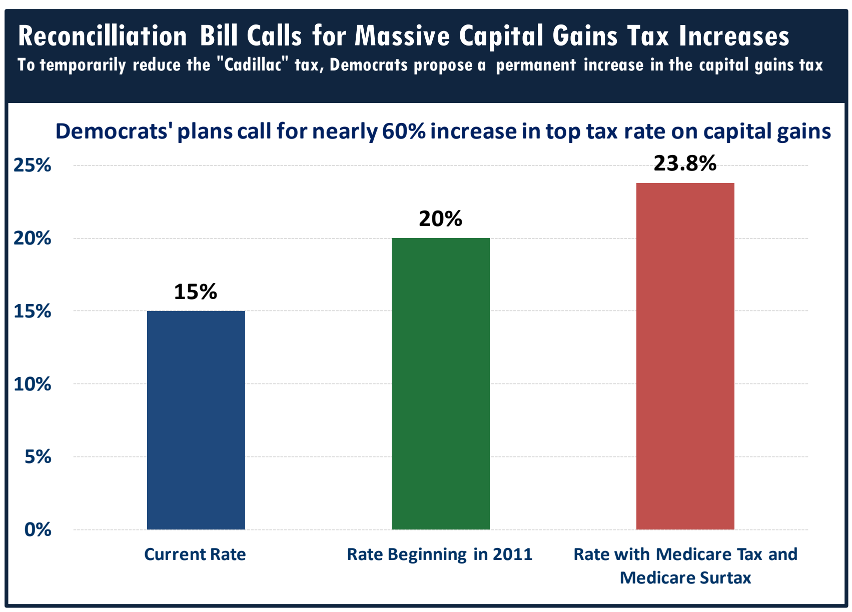
Senator Sam Brownback, Ranking Republican

Reconciliation Bill Trades Short Term Reduction in Cadillac Tax for Permanent Increase in Capital Gains Tax

March 22, 2010

Throughout their campaign for a massive takeover of the U.S. health care market, Democrats and the President have continually argued that their proposed reforms are necessary to help reduce excessive health care cost growth. A large component of projected future budget deficits is attributable to unfunded entitlement costs, especially rising health care costs. A primary source of revenue in the Senate passed legislation to pay for proposed reform—the so-called "Cadillac" tax on high cost health insurance plans—has been massively scaled down in the reconciliation bill passed by House Democrats. Many policy experts viewed this as one of the few components of the legislation that would help reduce health care cost growth.

To replace the short-term loss in revenues caused by a temporary reduction in the Cadillac tax, the reconciliation bill imposes a permanent increase in the top capital gains tax rate.[1] While the short term revenue effect of this switch is essentially neutral, the long-term effect will be highly detrimental to the U.S. economy. Rather than generate tax revenues to expand health insurance coverage through a tax that reduces health care costs, the reconciliation bill generates revenues through a permanent increase in a tax that discourages savings and investment, reduces productivity, and depresses wages and the standard of living. Republicans have been virtually unanimous in their opposition to new taxes to fund a massive government intervention in health care, but surely anyone who opposes taxes because of the negative effects they have on economic growth should be even more opposed to increased taxes on job- and growth-creating investments.



The Democrats' willingness to trade a tax on something that most agree we want to discourage (excessive health insurance benefits) for a tax on something that all agree we want to encourage (savings, investment, and productivity growth) is short sighted.

[1] The reconciliation bill delays the implementation of the Cadillac tax from 2013 to 2018 and increases the thresholds for the tax from $8,500 and $23,000 (for single and family policies) to $10,200 and $27,500. The $117 billion in lost revenue from the Cadillac tax over the 10-year budget window is replaced with $123 billion in new revenue from subjecting capital gains to both the Medicare tax (2.9%) and the Medicare Surtax (0.9%, which is part of the Senate bill, but for wages only) for individuals earning more than $200,000 and couples earning more than $250,000.