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## Tax Package Proposed as Accompaniment to Minimum Wage Bill Contains Troubling Proposals

On August 28, 2000, House Speaker Dennis Hastert wrote to President Clinton proposing that they work to pass a package that would include a minimum-wage increase, a series of changes in the Fair Labor Standards Act (some of which could exempt certain firms and employers from minimum wage and overtime rules), and a package of tax cuts. The minimum-wage and FLSA changes are beyond the scope of this short analysis. Its purpose is to highlight three problematic aspects of the proposed tax package.

- One of the largest tax proposals in the package would provide a costly new “above-the line” deduction for health insurance premiums paid by individuals who purchase their own insurance or whose employers subsidize less than 50 percent of the cost of health insurance premiums. This provision is likely to do little to make health insurance affordable for most of the nation’s uninsured, 93 percent of whom either owe no federal income taxes or are in the 15 percent bracket and thus would at most receive a subsidy of 15 cents for every dollar spent on health insurance. Moreover, because the deduction would provide a far deeper percentage subsidy for purchasing health insurance to higher-paid business owners and executives than to lower-wage earners, it could encourage some small business owners to drop group coverage (or not to institute it in the first place) and to rely on the deduction for their own coverage. To the extent this occurs, the ranks of the uninsured and underinsured among low- and moderate-wage workers could increase. This proposal is discussed in more detail in an attached short analysis.
- The package would repeal the modest unemployment insurance surtax (equal to 0.2 percent of the first \$7,000 in an employee’s wages) that employers pay *without* making any needed improvements in the unemployment insurance system. Representative of business, labor, state governments, and the Department of Labor (DOL) recently reached agreement on an unemployment insurance reform package that would repeal this surtax, provide additional administrative funding and flexibility to states in operating the UI program, and make some modest but long-overdue improvements in the unemployment insurance program to improve the program’s coverage rate among certain types of workers, particularly women, lower-paid workers and workers whose regular unemployment benefits are exhausted during recessions. Little more than one-third of unemployed workers receive unemployment insurance in an average month. A blue-ribbon Congressionally-chartered panel that studied the UI program in the mid-1990s and was chaired by Janet Norwood, the highly respected former Commissioner of the

Bureau of Labor Statistics, recommended a more extensive set of benefit and coverage improvements.

Repealing the UI surtax without approving the other elements of the business-labor-state-DOL reform proposal would unravel the agreement and undermine prospects for passing the rest of the proposal. A strong case can be made for including the full UI reform proposal in the minimum wage package. If inclusion of the full proposal is not possible, repeal of the surtax should not be part of the minimum-wage package.

- The package does not include certain other tax items that would be a more appropriate complement to minimum-wage legislation than some of the tax cuts the Speaker has proposed. In particular, the package does not include any improvements in the Earned Income Tax Credit for low-income working families with children. Bipartisan legislation introduced in July by Senators Rockefeller, Jeffords, and Breaux, as well as separate tax legislation introduced this year by Senator Hatch, would improve the EITC in various ways and thereby better support low-income working families with children. The Administration's budget also contains a set of EITC improvements. Such proposals recognize that to support families earning low wages, a combination of a higher minimum wage and a stronger EITC is needed.

One other point bears mention. Speaker Hastert's letter describes the tax cuts in the package as reflecting "our desire to help alleviate the burdens on small businesses that would shoulder the costs of [the minimum wage] increase." However, a number of the provisions that make up the tax package (especially the health insurance deduction) bear little relationship to any possible effects of a minimum-wage increase on small business.