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ACA Repeal Is a Key Trump Tax Policy

By Chye-Ching Huang

President Trump says he will soon propose a revised tax plan, but those seeking to evaluate his tax policies need to view them in a broader context. That's because with his commitment to repeal the Affordable Care Act (ACA), the President has already pledged to support health care-related tax changes that undercut his Administration's promise to only pursue tax policies that benefit average workers and their families.

Specifically, the President and his advisors have promised that their "every decision" on taxes would "be made to benefit American workers and American families,"¹ and that "there will be no absolute tax cut for the upper class."² But unless he and congressional Republicans radically change course, their ACA repeal proposals will generate large tax cuts for the highest-income Americans, drug and insurance companies, and would-be tax avoiders — and also generate large tax *increases* for millions of moderate- and middle-income families. Thus, rather than view Trump's revised tax reform plan in isolation, we must take into account his health care proposals to get the full measure of his overall tax policies.³

Tax Cuts for the Wealthy, Drug Companies, and Would-Be Tax Avoiders

If the President and Congress follow through on their plan to repeal all of the ACA's revenue measures (as proposed in recent leaked House draft legislation⁴) without enacting a replacement for the ACA:

¹ During his inauguration speech, President Trump proclaimed, "Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families." See Donald Trump, "The Inaugural Address," The White House, January 20, 2017, <https://www.whitehouse.gov/inaugural-address>, for the full speech.

² During an interview on CNBC's Squawk Box in November, Treasury Secretary Steven Mnuchin stated, "Any reductions we have in upper-income taxes will be offset by less deductions so that there will be no absolute tax cut for the upper class." For this clip, see Chye-Ching Huang, "ACA Repeal's Tax Cut to the Very Top Colliding with 'Mnuchin Test,'" Center on Budget and Policy Priorities, January 13, 2017, <http://bit.ly/2lPxWCZ>.

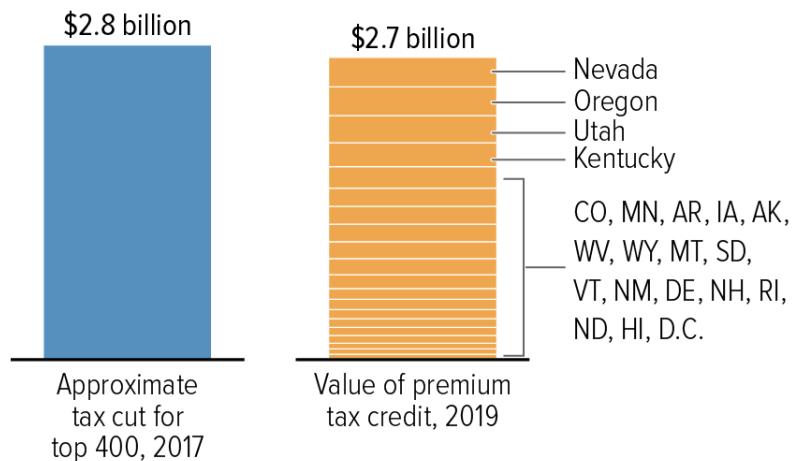
³ For a roundup of our analyses of the tax impacts of ACA repeal, see "Roundup: ACA Repeal Isn't Just Bad Health Policy, It's Also a Huge Tax Cut for the Wealthiest and Bad Tax Policy," Center on Budget and Policy Priorities, January 31, 2017, <http://bit.ly/2jMbtBn>.

⁴ Paul Demko, "Exclusive: Leaked GOP Obamacare replacement shrinks subsidies, Medicaid expansion," Politico, February 24, 2017, <http://www.politico.com/story/2017/02/house-republicans-obamacare-repeal-package-235343>.

The 400 highest-income taxpayers would get annual tax cuts averaging about \$7 million each, we estimate.⁵ The 400 highest-income taxpayers have annual incomes averaging more than \$300 million. This group's tax cut would total about \$2.8 billion a year, roughly equivalent to the value of premium tax credits that 813,000 people in the 20 smallest states and Washington, D.C. will lose if policymakers repeal the ACA without replacing it. (See Figure 1.) This windfall would come from repealing two ACA Medicare taxes — the additional Hospital Insurance tax on high-income earners and the Medicare tax on unearned income — that fall only on individuals with incomes above \$200,000 (\$250,000 for married couples). Their repeal would mean high-income taxpayers like the top 400 would no longer face Medicare taxes on all their income — unlike low- and moderate-income earners — and the disparity between the top tax rates on income from earnings and income from wealth would widen.⁶

FIGURE 1

With ACA Repeal, Top 400 Households Get Tax Cuts Worth More than Premium Tax Credits For 800,000 People in 20 States and D.C.



Note: ACA = Affordable Care Act. Top 400 refers to the top 400 highest-income households. Estimates based on the Republican bill to repeal the ACA vetoed by President Obama in January 2016 that would eliminate two Medicare taxes that only high-income filers pay and also eliminate premium tax credits that help low- and moderate-income families buy health coverage through the marketplace. The premium tax credits shown are for the 20 smallest states by value of the tax credits and for Washington, D.C.

Source: CBPP calculations based on Internal Revenue Service Statistics of Income and Urban Institute data.

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⁵ Brandon DeBot, Chye-Ching Huang, and Chuck Marr, “ACA Repeal Would Lavish Medicare Tax Cuts on 400 Highest-Income Households,” Center on Budget and Policy Priorities, January 12, 2017, <http://bit.ly/2jzK2uI>.

⁶ Chye-Ching Huang, Chuck Marr, and Emily Horton, “Eliminating Two ACA Medicare Taxes Means Very Large Tax Cuts for High Earners and the Wealthy,” Center on Budget and Policy Priorities, January 11, 2017, <http://www.cbpp.org/research/federal-tax/eliminating-two-aca-medicare-taxes-means-huge-tax-cuts-for-high-earners-and-the>.

Millionaires would get annual tax cuts averaging more than \$50,000 apiece from the repeal of the ACA's tax provisions, the Urban-Brookings Tax Policy Center estimates.⁷ Millionaires would reap more than half of the net tax cuts.

Drug and insurance companies would get tax cuts. Repealing the ACA's taxes on drug companies, health insurers, and medical device manufacturers would reduce federal revenues by \$180 billion between 2016 and 2025, according to the Congressional Budget Office (CBO).⁸

Would-be tax avoiders would face lighter tax avoidance penalties. The Republican repeal bill is expected to eliminate ACA provisions that help prevent the creation of business tax shelters and raise penalties on tax avoiders, at a cost of \$5.8 billion over a decade, CBO estimates. That could embolden tax lawyers, accountants, and businesses to devise and use complex tax-avoidance schemes — even as Republicans plan to pursue fundamental tax changes later this year that could create new tax-avoidance opportunities.⁹

Tax Increases for 7 Million Low- and Moderate-Income Families

ACA repeal would significantly raise taxes on about 7 million low- and moderate-income families due to the loss of their premium tax credits — worth an average of \$4,800 in 2017 — that help them buy health coverage through the ACA's health insurance marketplaces and afford to go to the doctor when needed.¹⁰

The ACA repeal bill that Congress passed and President Obama vetoed last year will likely be the starting point for this year's Republican legislation, and that bill would have repealed the ACA's premium tax credits altogether. More recently, House Republicans have suggested they would create an alternative tax credit. While they have provided none of the details or cost estimates for their proposal, they've made clear that their alternative tax credit would provide far less help to moderate-income families.¹¹ If President Trump signs onto this approach, it will make his overall tax plan significantly more regressive.

⁷ Chye-Ching Huang and Paul N. Van de Water, "Millionaires the Big Winners From Repealing the Affordable Care Act, New Data Show," Center on Budget and Policy Priorities, December 15, 2016, <http://www.cbpp.org/research/federal-tax/millionaires-the-big-winners-from-repealing-the-affordable-care-act-new-data>.

⁸ Chye-Ching Huang and Paul N. Van de Water, "ACA Repeal Means Tax Cuts for Drug Companies and Health Insurers," Center on Budget and Policy Priorities, January 12, 2017, <http://bit.ly/2ii9yIR>.

⁹ Chye-Ching Huang, "ACA Repeal Would Embolden Tax Avoidance," Center on Budget and Policy Priorities, January 23, 2017, <http://bit.ly/2jKdP5h>.

¹⁰ See our ACA roundup, <http://bit.ly/2jMbtBn>.

¹¹ Jacob Leibenstein *et al.*, "House Republicans Would Reverse ACA Coverage Gains and Radically Overhaul Medicaid, New Talking Points Confirm," Center on Budget and Policy Priorities, February 17, 2017, <http://www.cbpp.org/research/health/house-republicans-would-reverse-aca-coverage-gains-and-radically-overhaul-medicaid>.