

Implications of the JCT Score of the High-Cost Insurance Tax

Jonathan Gruber, November 5, 2009

The high-cost insurance tax presents a rare “win-win” opportunity: it can both finance necessary expansions in health care for our lowest income citizens *and* provide an effective tool to lower health care spending. By lowering health care spending, the high-cost insurance tax will shift more compensation into wages and improve the standard of living of U.S. workers. Estimates from the Joint Tax Committee (JCT) can be used to demonstrate the important effect of the High-cost insurance tax in terms of increasing worker wages. Using data from the JCT, I show in this memo that the high-cost insurance tax will

- Raise worker wages by *\$74 billion* in 2019, net of all High-cost insurance tax payments made on the workers behalf
- The cumulative rise in wages from 2013 through 2019 is *\$313 billion* – more than one-third as large as the entire net cost of the entire reform package
- Almost two-thirds of these gains accrue to families with incomes below \$100,000, and more than 90% of these gains accrue to families with incomes below \$200,000

Background: The JCT Estimates of the High-cost insurance Tax

This analysis relies on three documents issued by the JCT. The first is their October 13, 2009 memo which provided the score of the revised High-cost insurance tax as in the Senate Finance Committee mark. This memo shows the year-by-year revenues raised by the High-cost insurance tax. Importantly, the memo highlights the *two different ways* the High-cost insurance tax raises revenues. The first is through actual excise tax receipts paid by those high cost plans that remain above the High-cost insurance threshold. The second is through the fact that firms will spend less on health insurance – and this reduced spending will be shifted to workers in the form of higher wages. This conclusion of wage shifting is supported by both economic theory and evidence, and is assumed in modeling by both the JCT and the CBO. This division is very informative: the JCT estimates that about 80% of the revenues raised by the High-cost insurance tax will come from revenue from higher wages, not from the excise tax itself.

The second document is the JCT’s September 17, 2009 letter to Senator Orrin Hatch which showed the distributional consequences of an earlier version of the High-cost insurance tax, which had a lower rate (35%) but did not have adjustments for location, worker age, or high risk industries. These helpful tables show the distribution of the revenue burden of that tax by income group.

The third document is a March 24, 2009 JCT document which provides information on the distribution of marginal tax rates by income category.

Interpreting the JCT Estimate

The JCT estimates can be used to infer the impact of the High-cost insurance tax on wages. This is done as follows:

- Use the October 13 score to compute the share of revenues that are raised from taxing wages, as opposed to the excise tax itself. This falls from about 90% in 2013 to about 80% in 2015 and beyond.
- Use the September 17 results to assess how these total revenues are distributed by income group. I assume the distribution for the October 13 proposal is the same as for the September 17th proposal. I also assume that the share of revenues raised from taxing wages is the same for all income groups
- Use the March 24th memo to get marginal tax rates for each income category
- Compute the increase in employee wages for each income category by taking the total revenues raised from taxing wages (total revenues times share raised from taxing wages) and dividing by the average marginal tax rate for that income group.
- Compute the net gain to that income group by subtracting off (a) taxes that workers will pay on these higher wages and (b) the total tax burden on that group from the High-cost insurance tax (once again assuming the distribution of the October 13 proposal is the same as the September 17 proposal)

Note that the JCT distributional information is only available every other year; I imputed the missing years by assuming the average ratio of gross (or net) wages to revenues raised in the surrounding years.

Results

The results of this analysis are presented in Table 1. The second column shows the year by year revenues from the High-cost insurance tax, while the third column shows the net wage implications for workers, after subtracting out High-cost insurance tax payments.

Key findings from the table are:

- Worker wages rise by *\$74 billion* by 2019,
- Worker wages rise by *\$313 billion* in aggregate over this time period, or more than one-third of the estimated price tag of the entire health reform bill
- This is also a very progressive wage adjustment. In every year, the share of wage gains accruing to those with incomes below \$100,000 is about two-thirds of the total, and the share of wage gains accruing to those with incomes below \$200,000 is over 90% of the total.

Table 1: Impacts of the High-cost insurance Tax		
Year	High-cost insurance Tax Revenue (\$ billions)	Net Rise in Wages (\$ billion)
2013	9.5	17.1
2014	17.7	28.9
2015	23.2	34.0
2016	29.5	43.8
2017	34.9	52.6
2018	40.3	62.5
2019	46.3	73.8
Total	201.4	312.7