Abstract: The hodgepodge of new taxes that have already or will soon take effect as a result of the Patient Protection and Affordable Care Act may not all show up in the income tax tables, but their huge cost is still very real. This cost will become most apparent in lost wages and international competitiveness, and it reduces middle- and low-income families’ wages just as surely as an income tax hike would. These taxes break President Barack Obama’s promise not to raise taxes on families making less than $250,000 per year.

Now that the Patient Protection and Affordable Care Act (PPACA) of 2010 has been passed by Congress and signed into law by President Barack Obama, substantial tax increases can be expected in the near future. Combined, all of these tax increases (including those on employers that do not provide health insurance for their employees and on individuals who do not buy health insurance) will cost taxpayers $503 billion between 2010 and 2019.1

These tax hikes will slow economic growth, reduce employment, and suppress wages. Further, in an act reminiscent of George H. W. Bush breaking his “no new taxes” pledge in 1991, the tax hikes in the PPACA will raise taxes on middle-income families in direct violation of President Obama’s oft-stated pledge not to do so. And by delaying the effective date for most of these new taxes, the President and Congress have shown themselves unwilling to implement these taxes on their own watch.

Talking Points

- The Patient Protection and Affordable Care Act of 2010 will raise taxes on middle-income families in direct violation of President Obama’s pledge not to do so.
- Many families that make far less than $250,000 a year have high-end health plans and will be subject to the excise tax.
- The increased hospital insurance payroll tax rate will fund a new entitlement separate from Medicare for the first time.
- Applying the HI tax to investment income will discourage investment and lead to slower economic growth, fewer jobs, and lower wages.
- The individual mandate amounts to a de facto tax on individuals who do not want to purchase insurance.
- The biggest tax hikes will take effect after President Obama’s first term and many Members of Congress are out of office.
- The health legislation includes a myriad of smaller tax hikes, many of which will fall on middle- and lower-income Americans.
raising doubts as to whether future Presidents and Congresses will be willing to do so. This increases even further the likelihood that this bill will substantially increase the deficit, which would break another Obama promise.

**Major New Tax Increases in the PPACA**

Three major tax increases make up a majority of new revenue in the PPACA.

1. **A new 40 percent excise tax on health insurance plans.** This will apply to plans valued in excess of $10,200 for individuals and $27,500 for families. It will take effect in 2018 and is projected to raise $32 billion by 2019.

The PPACA could have fixed one of the health care system’s most serious flaws: the inefficient tax treatment of employer-sponsored health insurance. Done rightly, a serious reform of the federal tax treatment of health insurance could have expanded opportunities for Americans to own and control their own health insurance, created true portability of coverage, stimulated intense competition within the health insurance market, and reduced overspending on health care by making workers more attuned to their health care costs. Instead, the new excise tax will make health insurance more costly and complex, while leaving the perverse incentives and inequities of the existing system in place. In addition, this hidden tax will do nothing to make costs more transparent.

Many families that make far less than $250,000 a year have high-end health plans and will be subject to the excise tax when it goes into effect in 2018, breaking President Obama’s pledge not to tax these families. The threshold above which an insurance plan will be hit by the tax is indexed to increase at inflation plus 1 percent, which is below the rate of medical cost inflation. This means that more and more health insurance plans that Congress never intended to tax will fall above the threshold in future years. Many of these plans will also belong to families making less than $250,000 a year, further shattering President Obama’s pledge.

2. **An increase in the Hospital Insurance (HI) portion of the payroll tax.** This will increase the employee’s portion from 1.45 percent to 2.35 percent for families making more than $250,000 a year ($200,000 for singles). Combined with the employer’s portion, the total rate will be 3.8 percent when the tax hike takes effect in 2013.

There is a long-standing tradition that the payroll tax should be used exclusively to fund Social Security and Medicare. The increased HI rate not only breaks this principle, but also, and for the first time, will fund a new, separate entitlement. With this precedent broken, future Congresses will be tempted to use payroll tax increases to pay for other new programs that the tax was never intended to fund.

The $250,000 threshold is not indexed for inflation, so in inflation-adjusted terms, families making less than $250,000 a year today will pay

---


the tax when it takes effect in 2013. As inflation increases, more and more middle-income families will be hit by the tax. This tax hike also breaks President Obama’s pledge not to raise taxes on these families.

3. Payroll taxes on investment. The PPACA applies the new higher 3.8 percent HI tax to investment income, including capital gains, dividends, rents, and royalties, effective in 2013. For the first time, a portion of the payroll tax will apply to investment income—a sharp departure from the nature and history of social insurance programs and another dangerous precedent for future policy. This will discourage investment and lead to slower economic growth, fewer jobs, and lower wages.\(^4\) Tax policy should work to reduce the growth-depleting tax on capital income, not to increase that burden.

Together, these payroll tax hikes will raise $210 billion between 2013 and 2019.

**Mandates on Individuals and Businesses Raise Taxes**

In essence, the mandates on individuals to purchase health insurance will raise taxes on families. When fully implemented in 2016, the individual penalty for not complying will reach up to $695 per person (for up to three people or $2,085 per household) or 2.5 percent of taxable income.\(^5\) Many healthy but uninsured individuals will now be forced to buy insurance plans under the PPACA. This added cost—whether as new premiums or as a penalty for not purchasing insurance—is a de facto tax increase for these individuals.

Employers also have a new mandate to provide health insurance for their employees. Employers with more than 50 employees that do not offer coverage and have at least one full-time employee who receives a premium tax credit will pay a fine of $2,000 per employee (excluding the first 30) or $3,000 per employee receiving the premium tax subsidy.

As with the individual mandate, families will feel the bite of these tax increases in two ways:

1. If an employer begins to offer insurance, the wages of those employees to be covered will drop by the amount that the newly provided health insurance plan costs the employer.
2. If the employer fails to offer coverage, it will pay the tax, and the employee’s compensation will fall by that amount.

Either way, workers’ total compensation does not change; only its composition changes. But because workers will be forced to take more of their compensation in the form of health insurance, their cash wages will fall, and they will have less flexibility to use their earnings as they wish.

**Other PPACA Tax Increases**

The health legislation includes a myriad of smaller tax hikes, many of which will also fall on middle- and lower-income Americans. Many of them will not take effect until after Obama’s potential second term. These hikes include:

---


• A reduction in the number of medical products that taxpayers can purchase using health savings accounts (HSAs) and flexible spending accounts (FSAs).

• An increase in the penalty for purchasing disallowed products with HSAs to 20 percent.

• A limit on the amount that taxpayers can deposit in FSAs to $2,500 a year after 2013.

• A requirement that corporations report more information on their business activities, the theory being that if corporations must report more about their activities, they will be less likely to try to avoid taxation.

• An annual fee on manufacturers and importers of branded drugs based on each individual company’s share of the total market. The tax starts at $2.5 billion in 2011 and goes to $2.8 billion in

### The List of the Obamacare Taxes

<table>
<thead>
<tr>
<th>Description of Tax</th>
<th>Year Effective</th>
<th>Revenue Raised (2010–2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase Hospital Insurance (HI) portion of the payroll tax from 2.9 percent to 3.8 percent for couples earning more than $250,000 a year ($200,000 for single filers).</td>
<td>2013</td>
<td>$210 billion</td>
</tr>
<tr>
<td>Apply the 3.8 percent HI tax to investment income for couples earning more than $250,000 a year ($200,000 for single filers) for the first time.</td>
<td>2013</td>
<td>*</td>
</tr>
<tr>
<td>Mandate for individuals to buy health insurance and employers to offer it to their workers.</td>
<td>2014</td>
<td>$65 billion</td>
</tr>
<tr>
<td>Annual fee on health insurance providers based on each individual company’s share of the total market.</td>
<td>2014</td>
<td>$60 billion</td>
</tr>
<tr>
<td>40 percent excise tax on “Cadillac” health insurance for plans costing more than $10,200 for individuals and $27,500 for families.</td>
<td>2018</td>
<td>$32 billion</td>
</tr>
<tr>
<td>Impose an annual fee on manufacturers and importers of branded drugs based on each individual company’s share of the total market.</td>
<td>2011</td>
<td>$27 billion</td>
</tr>
<tr>
<td>Exclusion of unprocessed fuels from the existing cellulosic biofuel producer credit.</td>
<td>2010</td>
<td>$24 billion</td>
</tr>
<tr>
<td>2.3 percent excise tax on manufacturers and importers of certain medical devices.</td>
<td>2013</td>
<td>$20 billion</td>
</tr>
<tr>
<td>Higher corporate taxes through stricter enforcement by requiring them to report more information on their business activities.</td>
<td>2012</td>
<td>$17 billion</td>
</tr>
<tr>
<td>Raise the 7.5 percent AGI floor on medical expenses deduction to 10 percent.</td>
<td>2013</td>
<td>$15 billion</td>
</tr>
<tr>
<td>Limit the amount taxpayers can deposit in flexible spending accounts (FSAs) to $2,500 a year.</td>
<td>2014</td>
<td>$13 billion</td>
</tr>
<tr>
<td>Reduce the number of medical products taxpayers can purchase using funds they put aside in health savings accounts (HSAs) and FSAs.</td>
<td>2011</td>
<td>$5 billion</td>
</tr>
<tr>
<td>Eliminate the corporate deduction for prescription expenses for retirees.</td>
<td>2013</td>
<td>$4.5 billion</td>
</tr>
<tr>
<td>Increase corporate taxes by making it more difficult for businesses to engage in business activities that reduce their tax liability.</td>
<td>2010</td>
<td>$4.5 billion</td>
</tr>
<tr>
<td>10 percent excise tax on indoor tanning services.</td>
<td>2010</td>
<td>$2.7 billion</td>
</tr>
<tr>
<td>Increased penalty for purchasing disallowed products with HSAs to 20 percent.</td>
<td>2011</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Increase taxes on health insurance companies by limiting the amount of compensation paid to certain employees they can deduct from their taxes.</td>
<td>2013</td>
<td>$0.6 billion</td>
</tr>
<tr>
<td>Repeal special deduction for Blue Cross/Blue Shield organizations.</td>
<td>2010</td>
<td>$0.4 billion</td>
</tr>
</tbody>
</table>

**TOTAL REVENUE RAISED**

$503 billion

*Revenue raised from the application of the Hospital Insurance tax to investment income is included in the $210 billion figure shown above.

Sources: Heritage Foundation calculations based on data from the Joint Committee on Taxation.
2012–2013, $3.0 billion in 2014–2016, $4.0 billion in 2017, $4.1 billion in 2018, and $2.8 billion per year thereafter.

- A 2.3 percent excise tax on manufacturers and importers of certain medical devices.
- An annual fee on health insurance providers based on each company’s share of the total market. Since health insurance companies stand to get more customers because of the individual and employer mandates, Congress forced them to share some of the revenue increase with the federal government. The tax raises $8 billion in 2014, $11.3 billion in 2015–2016, $13.9 billion in 2017, and $14.3 billion in 2018. After 2018, it will raise $14.3 billion, indexed to medical cost growth.
- Elimination of the corporate deduction for prescription expenses for retirees. This provision has caused many large companies to announce write-downs of their future earnings.
- An increase in the floor on the deduction for medical expenses from 7.5 percent of adjusted gross income to 10 percent.
- A limit on the amount that health insurance companies can deduct from their taxes to $500,000 of compensation paid to officers, employees, directors, and service providers.
- Repeal of the special deduction for expenses related to claims adjustments and administrative expenses specifically for Blue Cross/Blue Shield organizations.
- A 10 percent excise tax on indoor tanning services.
- Exclusion of unprocessed fuels from the existing cellulosic biofuel producer credit. Some industries that do not make biofuels were able to claim the credit because of byproducts produced during their manufacturing process. This credit is an unjustified use of the tax code that encourages certain kinds of energy production at the cost of others. Congress might better have scrapped the credit altogether.
- A change in the definition of which business activities are for economic purposes and which are strictly to avoid taxation—many of which were perfectly legal—along with penalties for underpayments due to the latter.

### Broken Promises to the Middle Class

President Obama repeated again and again during the campaign that he would not raise taxes on any family making less than $250,000 a year. He broke that promise early in his presidency when he increased cigarette taxes, and he has done so in a far grander way with this health care legislation. Not only will the higher HI taxes cost middle-income families jobs and suppress their wages, but the excise tax on high-cost plans will hit them directly.

Several of the taxes listed above, while not targeting middle-income families, will ultimately be passed on to them through higher prices. These include the fees on medical device manufacturers, pharmaceutical companies, and health insurance companies and the new tax on tanning services.

Restricting how much taxpayers can set aside in HSAs and FSAs will increase the income taxes paid by middle- and low-income families, because income that they now set aside tax-free in these accounts above the new threshold will now be subject to income tax. Limiting the types of products that taxpayers can buy with the funds in these accounts will cause middle- and low-income taxpayers to put aside less money in their HSAs and FSAs, increasing their income tax liability.

The mandates on individuals to purchase health insurance will also function as a tax on middle- and low-income families that currently are not covered. Even those who do have coverage will be forced to buy more expensive insurance.
The Rollout of Taxes for Obamacare

As part of the recently passed health care legislation, a slew of new taxes begin taking effect this year, increasing rapidly through 2019. By the end of 2019, the total tax burden on the economy is projected to be nearly $102 billion higher for that year alone because of Obamacare. The steepest year-to-year increase occurs in 2013, when total Obamacare taxes triple from $12 billion to $36 billion because of higher payroll taxes.

**TIMELINE OF INDIVIDUAL TAXES**

- **Payroll tax (Hospital Insurance portion)**
  - Higher payroll taxes will soon hit middle-income taxpayers because the $250,000 threshold is not indexed for inflation. Applying payroll taxes to investment income for the first time will slow economic growth, cost jobs, and lower wages. These tax hikes will open the door for Congress to raise them even further in the future whenever it wants more revenue.

- **Health insurance mandates for individuals and employers**
  - $65 billion

- **Annual fee on health insurance providers**
  - $60 billion

- **40% excise tax on “Cadillac” health insurance plans**
  - $32 billion
  - This new tax will grow beyond 2019 and hit more and more middle- and low-income families in the process.

- **Annual fees on manufacturers, importers of branded drugs**
  - $27 billion

- **Exclusion of unprocessed fuels**
  - $24 billion

- **New corporate taxes**
  - $17 billion

- **Eight other taxes, restrictions, and penalties**
  - $32 billion

**TOTAL OBAMACARE TAXES, BY YEAR**

- $102 billion
- $100 billion
- $75 billion
- $50 billion
- $25 billion

**Source:** Heritage Foundation calculations based on data from the Joint Committee on Taxation.
A Steep Price to Pay

Over time, the hodgepodge of new taxes in effect now or in the future will substantially slow economic growth and affect taxpayers from all walks of life. This will become most apparent in lost wages and international competitiveness.

These lost wages, largely out of the pockets of low- and middle-income families, represent a huge cost of this legislation that does not show up in any official tables, but this cost is every bit as real. It reduces families’ incomes just as surely as an income tax hike would and breaks the promise that President Obama made when he said he would not raise their taxes.

—Curtis S. Dubay is a Senior Analyst in Tax Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation. Vivek Rajasekhar, an intern in the Center for Health Policy Studies, contributed to this paper.