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Committee on Ways and Means
U.S. House of Representatives

Tax-Related Provisions of the Affordable Care Act

Mr. Chairman, Ranking Member Lewis, and members of the subcommittee, I appreciate the invitation to appear before you today.

The Affordable Care Act (ACA) will extend health insurance coverage to 27 million people and help assure that Americans have access to affordable coverage. And it will do so in a fiscally responsible way. In fact, the Congressional Budget Office (CBO) estimates that health reform will *reduce* the deficit — modestly in its first ten years, but substantially in the following decade.¹

The tax provisions of the ACA not only raise revenue but are also sound health and tax policy.

Some provisions will encourage consumers to be more cost-sensitive in purchasing health insurance and health care services. Among these provisions are the inclusion of the cost of employer-sponsored health coverage on W-2 forms, the excise tax on high-cost employer-sponsored coverage, and limitations on the use of tax-advantaged accounts to pay for health-related expenses.

The ACA also levies taxes on or reduces Medicare payments to businesses in industries that will directly benefit from health reform. The taxes on drug manufacturers and importers, medical device manufacturers, and health insurance providers fall into this category.

Two other new taxes will affect only the wealthiest Americans, who have the greatest ability to pay: the additional Hospital Insurance tax on high earners and the new 3.8-percent Medicare tax on unearned income.

Finally, health reform makes health coverage a shared responsibility for individuals and employers. Individuals who do not obtain coverage for themselves and their families, and large

¹ Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Nancy Pelosi, March 20, 2010; Letter to the Honorable John Boehner, February 18, 2011; Letter to the Honorable John Boehner, July 24, 2012.

employers that do not offer affordable coverage to their workers, will be subject to a tax penalty. This structure follows the Massachusetts model of health reform, which relies primarily on private health insurance plans to provide coverage.

Taken as a whole, the ACA will significantly strengthen our nation's economy.

CBO estimates that health reform will slightly reduce premiums for employer-sponsored health insurance in the near term. For employers with more than 50 workers (which account for 70 percent of the insurance market), CBO estimates that the law will reduce average premiums by up to 3 percent in 2016. For small employers, the estimated change in premiums ranges from an increase of 1 percent to a reduction of 2 percent.²

Even if health reform were to impose some costs on employers, economic principles strongly suggest that it would have little impact on hiring decisions. Employers would ultimately pass on any such effect to workers in the form of slower growth in their after-tax compensation. CBO draws that conclusion with respect to both the excise tax on high-cost plans and the penalty on firms that do not offer affordable coverage.³

All in all, the short-term economic effects of health reform will be small. Moody's Analytics terms the law's economic impact "minor" and says that any disincentives from higher taxes and fees "will hardly make a difference."⁴ CBO foresees a small net reduction in labor supply, because some people who now work mainly to obtain health insurance will choose to retire earlier or work somewhat less, not because employers will eliminate jobs.⁵ That effect could be partly offset by increased incentives to work for people who now face losing Medicaid coverage if they work more.

Over the longer run, health reform will have many positive impacts on the economy. The lower budget deficits stemming from health reform will hold down interest rates and free up capital for private investment. Health reform will increase labor market flexibility, since workers will no longer be locked into a job by the need for health coverage. Expanding coverage will also improve health outcomes by helping people obtain preventive and other health services and improving continuity of care. Most important, the ACA includes a wide array of policies to improve health care quality and reduce costs. These factors should enhance the nation's economic productivity.

In conclusion, the tax-related provisions of the Affordable Care Act form part of a carefully thought-out structure to expand health insurance coverage and slow the growth of health care costs without adding to the budget deficit. Any effort to change these provisions must not be allowed to undercut any of these critical objectives.

² Elmendorf, Letter to the Honorable Evan Bayh, November 30, 2009.

³ Congressional Budget Office, "Box 2-1: Effects of Recent Health Care Legislation on Labor Markets," *The Budget and Economic Outlook: An Update*, August 2010, pp. 48-49.

⁴ Augustine Faucher, "Healthcare Reform Doesn't Alter the Outlook," Moody's Analytics, March 26, 2010.

⁵ CBO, Box 2-1.