United States Senate
Committee on Finance

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Senator Grassley Floor Speech on Health Care Tax Increases
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President Obama has pledged that he will not raise taxes of any kind on any family making less than $250,000, or any individual making less than $200,000.

On September 12, 2008, in Dover, New Hampshire, Candidate Obama said, "And I can make a firm pledge--no family making less than $250,000 will see their taxes increase. Not your income tax, not your payroll taxes, not your capital gains taxes, not any of your taxes." President Obama's pledge has been repeated by the President and his advisors numerous times since he's been in office. However, the health care reform bill that was recently reported out of the Senate Finance Committee is loaded with tax hikes on "the middle class."

There has been much discussion about who is in the middle class. But, there is no clear definition of the middle class.

According to a Pew Research poll, 91% of Americans consider themselves lower-middle class, middle-class, or upper-middle class. President Obama, however, has defined the middle class as those making under $250,000. For example, on the Presidential campaign trail, then-Candidate Obama stated that, "If you are making less than $250,000, then you are definitely somewhere in the middle class."

In general, President Obama's budget tracks this definition by preserving the current income tax rate structure for families under $250,000 and singles under $200,000.

The Congressional Democratic Leadership budgets, by and large, adopted President Obama's definition of the middle class.

President Obama and Congressional Democrats appear to have adopted this definition of the middle class in the context of health care reform.

For example, on August 3, 2009, President Obama's Press Secretary, Robert Gibbs said: "Let me be precise: The President's clear commitment is not to raise taxes on those making less than $250,000 a year."

In his Portsmouth, New Hampshire, town hall meeting on health care reform, the President said – referring to ways to pay for health care reform – "it should not burden people who make $250,000 a year or less."

The Congressional Democratic Leadership has made similar commitments.

According to the official Congressional scorekeepers — the Joint Committee on Taxation and the Congressional Budget Office — the Finance Committee bill contains over a half trillion dollars worth of tax increases, fees, and penalties on individuals and businesses.

The Joint Committee on Taxation – also known as Joint Tax – has testified that a significant percentage of these tax increases, fees, and penalties will be borne by middle class taxpayers. That is, families making $250,000 and singles making $200,000 a year.

Joint Tax has also performed a distributional analysis of three tax provisions of the Senate Finance Committee bill for the year 2019 – when these three provisions are fully in effect.

The first provision Joint Tax analyzed is the advance refundable insurance premium tax credit.

The other two provisions Joint Tax analyzed are the high cost plans tax, also known as the Cadillac plans tax, and the medical expense deduction tax increase.

The Joint Committee on Taxation found that, on average, in 2019, singles making over $40,000 a year, and married couples and heads of household making over $75,000 a year, would see a net tax increase under the Finance Committee bill.

Let me repeat that, if you're single and make over $40,000 a year, or married or head of household and make over $75,000 a year, your taxes are going up on average under the Finance Committee bill.

Now, my friends on the other side of the aisle may argue that this is not true. They will say that the Finance Committee bill lowers people's taxes.

This may be true for some taxpayers. But, for middle-class taxpayers, their taxes will go up.

Don't take my word for it. Joint Tax – the official Congressional tax scorekeeper – says so.

So if the President signs the Senate Finance Committee bill – or some of the financing measures in the bill – into law, the President would break his pledge.

The President would be raising taxes on families making $250,000 and singles making $200,000 a year.

Now that we have established that the Finance Committee bill raises taxes on the middle class, let's dig a little deeper.

In looking at 2019, Joint Tax data leads to the conclusion that 77% of the burden of the tax increases in the Finance Committee bill would be borne by middle-class taxpayers.

In 2019, out of those taxpayers making under $200,000 that are affected by the three provisions mentioned above, 54% of them will see a tax increase. In other words, over 46 million middle class families and individuals would pay higher taxes under the Finance Committee bill.

Looking further at the Joint Tax data, we find that middle class families who file a joint return are dramatically affected. Specifically, in 2019, over 64% of middle-class families filing joint tax returns would face a significant tax increase. These families make less than $250,000 a year.

Another way to look at this – there are four groups of middle class taxpayers that are treated differently under the Finance Committee bill.

The first is a group of 14.5 million families and individuals that will receive refundable tax credits. These refundable tax credits really represent government spending and not tax relief. In 2019, this government spending amounts to $77.2 billion alone.

In the second group, some of the 25 million families and individuals will see some tax relief. However, a substantial number of those 25 million families and individuals in this second group will not see any tax relief under the bill.

The third group – made up of 46 million middle-class families and individuals – will bear a large tax increase.

And a fourth group of 83 million families and individuals will bear a tax increase from provisions in the bill that Joint Tax has not yet analyzed.

For example, Joint Tax has not yet provided a distributional analysis on the effect of the fee on health insurers and medical device manufacturers.

Because we don't have that analysis, we don't know how many of those 83 million will face a tax increase.

For instance, many of those 83 million families and individuals buy health insurance themselves or their employer buys it for them, and they will bear the burden of the new insurance fees in the form of higher insurance premiums.

Now, during the Finance Committee debate, some Democratic Senators described the Finance Committee bill as providing a net tax cut.

To understand whether these claims are accurate, we must figure out what is meant by a "tax reduction."

The premium tax credit under the bill is refundable. That means tax return filers receive the tax credit even if they have no income tax liability. If a tax filer has no income tax liability, how can their taxes go down?

Joint Tax tells us that their taxes don't go down. Instead, Joint Tax tells us that these tax filers receive a Federal benefit. Joint Tax also tells us that 73% of the $453 billion in refundable tax credits for health insurance is government spending. That leaves just 27% – or $122 billion – for actual tax reduction.

Therefore, at best, it can be argued that this bill contains $122 billion in tax cuts for individuals.

Meanwhile, as mentioned above, there are over $500 billion in tax increases. Even if we add in the meager small business tax credit of $23 billion – which is the only other tax benefit in the bill – that means that this bill contains a net tax increase of over $350 billion.

Because the refundable insurance premium credit is called a tax credit, Democrats have argued that the entire $453 billion is a tax cut.

However, as mentioned above, Joint Tax and the Congressional Budget Office tell us that $330 billion of the $453 billion is actually government spending.

Many of my colleagues on the other side of the aisle argue that such government spending, or outlays, are actually tax cuts. However, Joint Tax tells us that outlays are really government spending, not tax cuts.

An outlay results when the tax credit is larger than an individual's income tax liability, if any. This means that instead of having his or her income tax liability reduced, that individual simply receives a check from the IRS.

Sending a check to an individual that pays no income tax cannot credibly be called a tax cut. Some Democrats argue that refundable tax credits serve to cut payroll taxes paid by individuals.

However, payroll taxes are meant to be paid so that individuals can receive benefits from Social Security and Medicare later in life. Even if you agree that individuals should not have to pay payroll taxes but still should receive Social Security and Medicare benefits, that rationale should only be used once.

However, we already have a number of generous refundable tax credits. For instance, the child tax credit, the earned income tax credit, and the making work pay credit are all refundable tax credits.

Now, the insurance premium credit in the Finance bill is added to that list. Therefore, this same payroll tax cut rationale has been used four times to claim that this government spending is actually a tax cut. Joint Tax tells us that these outlays are really government spending, and not a tax cut.

Now, the interesting thing about the refundable tax credit for health insurance is that it does not go to the individual or family. Instead, this federal tax benefit goes from the government directly to the insurance company providing health care coverage.

That's a check from the federal government made out to the "insurance company."   Dated, signed, sealed and delivered directly to that insurance company.

I remember hearing President Obama criticize sending money directly to the insurance companies.

On October 4, 2008, in Newport News, Virginia, then-Candidate Obama criticized Senator McCain's tax credit for health insurance by saying, "The new tax credit he is proposing. That wouldn't go to you. It would go directly to your insurance company. Not your bank account."

If President Obama was against it then, how is the President for it now?

I yield the floor.