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Working Uninsured Tax Equity Act of 1999 (Introduced in the House)

HR 1819 IH

106th CONGRESS

1st Session

H. R. 1819

To amend the Internal Revenue Code of 1986 to allow individuals who are not eligible to participate in employer-subsidized health plans a refundable credit for their health insurance costs.

IN THE HOUSE OF REPRESENTATIVES

May 14, 1999

Mr. MCDERMOTT (for himself, Mr. ROGAN, Mr. STARK, Mr. GRAHAM, Mr. MATSUI, Mr. LEWIS of Georgia, Mr. NEAL of Massachusetts, Mrs. THURMAN, Mrs. EMERSON, Ms. KILPATRICK, Mr. FROST, Mr. INSLEE, Mr. SHOWS, Mr. MCHUGH, and Ms. PELOSI) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to allow individuals who are not eligible to participate in employer-subsidized health plans a refundable credit for their health insurance costs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the `Working Uninsured Tax Equity Act of 1999'.

SEC. 2. REFUNDABLE CREDIT FOR HEALTH INSURANCE COSTS.

(a) IN GENERAL- Subpart C of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to refundable personal credits) is amended by redesignating section 35 as section 36 and by inserting after section 34 the following new section:

`SEC. 35. HEALTH INSURANCE COSTS.

`(a) IN GENERAL- In the case of an individual, there shall be allowed as a credit against the tax imposed by this subtitle an amount equal to 30 percent of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer, his spouse, and dependents.

`(b) LIMITATIONS-

`(1) LIMITATION BASED ON EARNED INCOME- The payments taken into account under subsection (a) for any taxable year shall not exceed the sum of--

`(A) the taxpayer's wages, salaries, tips, and other employee compensation includible in gross income, plus

`(B) the taxpayer's earned income (as defined in section 401(c)(2)).

`(2) LIMITATION BASED ON OTHER COVERAGE- Subsection (a) shall not apply to--

`(A) any taxpayer for any calendar month for which the taxpayer is eligible to participate in any subsidized health plan maintained by any employer of the taxpayer or of the spouse of the taxpayer, or

`(B) amounts paid for coverage under--

`(i) part B of title XVIII of the Social Security Act, or

`(ii) a Medicare supplemental policy (within the meaning of section 1882(g)(1) of the Social Security Act (42 U.S.C. 1395ss(g)(1))) or similar supplemental coverage provided under a group health plan.

The rule of the last sentence of section 162(l)(2)(B) shall apply for purposes of subparagraph (A).

`(c) LIMITATION BASED ON ADJUSTED GROSS INCOME-

`(1) IN GENERAL- No credit shall be allowed under subsection (a) for any taxable year for which the taxpayer's adjusted gross income exceeds the applicable dollar amount by $10,000 or more.

`(2) PHASEOUT- If the taxpayer's adjusted gross income for the taxable year exceeds the applicable dollar amount by less than $10,000, the credit which would (but for this subsection and subsection (d)) be allowed under subsection (a) shall be reduced (but not below zero) by an amount which bears the same ratio to such credit as such excess bears to $10,000. Any reduction under the preceding sentence which is not a multiple of $10 shall be rounded to the next lowest $10.

`(3) APPLICABLE DOLLAR AMOUNT- The term `applicable dollar amount' means--

`(A) in the case of a taxpayer filing a joint return, $50,000,

`(B) in the case of any other taxpayer (other than a married individual filing a separate return), $30,000, and

`(C) in the case of a married individual filing a separate return, zero.

`(4) SPECIAL RULE FOR MARRIED INDIVIDUALS FILING SEPARATELY AND LIVING APART- A husband and wife who--

`(A) file separate returns for any taxable year, and

`(B) live apart at all times during such taxable year,

shall not be treated as married individuals for purposes of this paragraph.

`(d) LIMITATION BASED ON AMOUNT OF TAX-

`(1) IN GENERAL- The credit allowed by subsection (a) for the taxable year (determined after the application of subsections (b) and (c)) shall not exceed the sum of--

`(A) the tax imposed by this chapter for the taxable year (reduced by the credits allowable against such tax other than the credits allowable under this subpart), and

`(B) the taxpayer's social security taxes for such taxable year.

`(2) SOCIAL SECURITY TAXES- For purposes of paragraph (1)--

`(A) IN GENERAL- The term `social security taxes' means, with respect to any taxpayer for any taxable year--

`(i) the amount of the taxes imposed by sections 3101, 3111, 3201(a), and 3221(a) on amounts received by the taxpayer during the calendar year in which the taxable year begins,

`(ii) the taxes imposed by section 1401 on the self-employment income of the taxpayer for the taxable year, and

`(iii) the taxes imposed by section 3211(a)(1) on amounts received by the taxpayer during the calendar year in which the taxable year begins.

`(B) COORDINATION WITH SPECIAL REFUND OF SOCIAL SECURITY TAXES- The term `social security taxes' shall not include any taxes to the extent the taxpayer is entitled to a special refund of such taxes under section 6413(c).

`(C) SPECIAL RULE- Any amounts paid pursuant to an agreement under section 3121(l) (relating to agreements entered into by American employers with respect to foreign affiliates) which are equivalent to the taxes referred to in subparagraph (A)(i) shall be treated as taxes referred to in such subparagraph.

`(e) COORDINATION WITH OTHER PROVISIONS-

`(1) DEDUCTION FOR MEDICAL EXPENSES- The amount taken into account in computing the credit under subsection (a) shall not be taken into account in computing the amount allowable to the taxpayer as a deduction under section 213(a).

`(2) SELF-EMPLOYED INDIVIDUALS ALLOWED EITHER DEDUCTION OR CREDIT FOR HEALTH INSURANCE- No credit shall be allowed under this section to a taxpayer for a taxable year if any amount is allowed as a deduction to such taxpayer for such year under section 162(l).

`(f) EXPENSES MUST BE SUBSTANTIATED- A payment for insurance to which subsection (a) applies may be taken into account under this section only if the taxpayer substantiates such payment in such form as the Secretary may prescribe.

`(g) SECTION NOT TO APPLY TO LONG-TERM CARE INSURANCE- This section shall not apply to insurance which constitutes medical care by reason of section 213(d)(1)(C).'

(b) CLERICAL AMENDMENT- The table of sections for subpart C of part IV of subchapter A of chapter 1 of such Code is amended by striking the last item and inserting the following new items:

`Sec. 35. Health insurance costs.

`Sec. 36. Overpayments of tax.'

(c) EFFECTIVE DATE- The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

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CRS Issue Brief

Tax Benefits for Health Insurance Current Legislation

Updated May 21, 1999

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to taxpayers who itemize.) Limited to 45% of costs in 1999, the deduction would gradually increase to 100% in 2007 and after. H.R. 1177 (Representative Chabot) would allow the same deduction without the phase-in period. S. 194 (Senator Boxer) would allow an immediate above-the-line deduction as well, but limited to $2,000 each year.

Expanded tax deductions would improve horizontal equity since more taxpayers could receive tax benefits similar to those associated with employer-paid coverage. (An above-the-line deduction has the same income tax effect as the exclusion allowed that coverage.) As discussed above, the deduction allowed under current law is restricted to taxpayers who itemize and is further limited to insurance and medical costs that exceed 7.5% adjusted gross income; thus, most taxpayers cannot benefit from it

At the same time, an expanded deduction would not improve vertical equity since the tax benefits generally would be proportional to the taxpayer's marginal tax rate. A $2,000 premium would result in tax savings of $720 for someone in the 36% bracket (i.e., $2,000 x 0.36) but only $300 for someone in the 15% bracket (i.e., $2,000 x 0.15). It might also be doubted whether tax savings of 15% would enable more lower income taxpayers to obtain insurance.

Tax Credit

There is growing interest in a tax credit for the purchase of health insurance. While a number of Members of Congress have indicated that they are working on bills to authorize a generally available credit, only a few bills have been introduced so far: H.R. 1136 (Representative Norwood), H.R. 1687 (Representative Shadegg) and H.R. 1819 (Representative McDermott). (For summaries of these bills, see the legislation section at the end of the issue brief.) Several bills have also been introduced that would authorize tax credits for more limited purposes, such as helping military retirees and certain senior citizens pay Medicare Part B premiums (H.R. 121 and H.R. 122, introduced by Representative Emerson).

A tax credit could be attractive in several respects. Being generally available, a credit could aid taxpayers who do not have access to employment-based insurance (or who are dissatisfied with it) and who cannot claim the medical expense deduction A credit could provide all taxpayers with the same dollar reduction in final tax liability, this would avoid problems of vertical equity associated with the tax exclusion and tax deduction. A credit might also provide lower income taxpayers with greater tax savings than either the exclusion or the deduction; this might reduce the number of the uninsured. If the credit were refundable, it could even help taxpayers with limited or no tax liability.

But the effects of tax credits can vary widely, depending on how they are designed. One important question is whether the credit would supplement or replace existing tax benefits, particularly the exclusion for employer-paid insurance. Another is whether the credit would be the same for all taxpayers or more generous for those with lower incomes (Ensuring that lower income families benefit from any credit may be difficult if they cannot afford to purchase insurance beforehand.) Similarly, it might be asked whether the credit would vary with factors that affect the cost of health insurance, such as age, gender, place of residence, or health status Whether the insurance must meet certain standards for benefits, coinsurance,

and underwriting might also be a factor. Legislative issues regarding tax credits are likely to become more focused as more bills are introduced.

Appendix

The Federal Income Tax Formula

Listed below is the general formula for calculating federal income taxes. The list omits some steps, such as prepayments (from withholding and estimated payments) and the alternative minimum tax.

1. Gross income
2. *minus* Deductions (or adjustments) for AGI
3. = Adjusted gross income
4. *minus* Greater of standard or itemized deductions
5. *minus* Personal and dependency exemptions
6. = Taxable income
7. *times* Tax rate
8. = Tax on taxable income (regular tax liability)
9. *minus* Credits
10. = Final tax liability

LEGISLATION

In a typical Congress more than 100 bills are introduced that would affect the tax treatment of health insurance in some way. The 106th Congress bills listed here are those that have received committee consideration or floor debate with respect to the issues discussed above, or that have been widely discussed. Congressional offices may identify and track other bills using the Legislative Information System available through the CRS home page.

H.R. 448 (Bilirakis)
Patient Protection Act of 1999. Among other things, expands eligibility for MSAs by eliminating numerical limits on them, allowing all employers to offer them, allowing them to be offered through cafeteria plans, allowing them for individuals who receive immediate federal annuities and are enrolled in high deductible insurance under FEHBP, increasing allowable contributions and permitting both employers and employees to contribute, and lowering the minimum insurance deductibles to $1,000 for single coverage and $2,000 for family coverage. In addition, MSAs could be used to pay for insurance offered by community health centers for a limited number of lower income individuals. Introduced February 2, 1999; referred to Committee on Commerce and to Committees on Education and the Workforce, Ways and Means, and the Judiciary.

H.R. 614 (Archer)
Medical Savings Account Effectiveness Act of 1999. Expands eligibility for MSAs by

eliminating numerical limits on them, allowing all employers to offer them, allowing them to be offered through cafeteria plans, increasing allowable contributions and permitting both employers and employees to contribute, and lowering the minimum insurance deductibles to $1,000 for single coverage and $2,000 for family coverage. Introduced February 8, 1999; referred to Committee on Ways and Means.

H.R. 1136 (Norwood)

Affordable Health Care Act of 1999. Among other things, authorizes a refundable tax credit for the purchase of health coverage. To be eligible, individuals must be citizens or lawful residents of the United States and not covered by Medicare or by armed forces, veterans, or Indian health care systems. Annual credit amounts are limited to $1,200 in the case of individuals age 18 and older and $600 for younger individuals; the overall limit for an individual policy is $3,600. For individuals eligible to participate in subsidized employer plans, the credit amounts are limited to $400 and $200, respectively, and the overall limit is $3,600. Individuals may designate health coverage providers to administer the credit. Repeals the deduction allowed self-employed individuals. Also expands eligibility for MSAs by eliminating numerical limits on them, allowing all employers to offer them, allowing them to be offered through cafeteria plans, allowing them for individuals who receive immediate federal annuities and are enrolled in high deductible insurance under FEHBP, increasing allowable contributions and permitting both employers and employees to contribute, and lowering the minimum insurance deductibles to $1,000 for single coverage and $2,000 for family coverage. Introduced March 16, 1999; referred to Committee on Commerce and to Committees on Education and the Workforce and Ways and Means.

H.R. 1687 (Shadegg)

Patients' Health Care Choice Act of 1999. Among other things, authorizes a tax credit for the amount paid for health insurance. Limits credit to $500 a year in the case of self-only coverage and $1,000 for family coverage Credit does not apply to months in which taxpayers are eligible to participate in employer subsidized health plans. Health insurance deductible and out-of-pocket maximums cannot exceed levels authorized for MSAs. Limits exclusions and limitations with respect to preexisting conditions. Terminates authorization for credit after 2001 to allow congressional oversight and adjustment. Also allows employees to elect compensating coverage payments that are excluded from gross income in lieu of receiving employer contribution to health insurance Allows employers to determine contribution on actuarial basis taking account of age, sex, and geography, provided methods are used consistently. Employers must agree to make compensating payments to all employees who elect them, with some exceptions. In addition, expands eligibility for MSAs by eliminating numerical limits on them, allowing all employers to offer them, allowing them to be offered through cafeteria plans, increasing allowable contributions and permitting both employers and employees to contribute, lowering the minimum insurance deductibles to $1,000 for single coverage and $2,000 for family coverage, and raising the maximum deductibles to $5,000 and $10,000, respectively. Introduced May 5, 1999; referred to Committee on Commerce and to Committees on Education and the Workforce and Ways and Means.

H.R. 1819 (McDermott)

Working Uninsured Tax Equity Act of 1999 Authorizes a refundable tax credit equal to 30% of the amount paid for health insurance Limits payments taken into account to taxpayers' earned income. Credit does not apply to months in which taxpayers are eligible

to participate in employer subsidized health plans or Medicare. Limits credit to sum of regular tax liability and social security taxes paid. Phases credit out starting with adjusted gross incomes of $50,000 (for married couples filing jointly) and $30,000 (for other taxpayers); married couples generally must file a joint return. Introduced May 14, 1999; referred to Committee on Ways and Means.

S. 300 (Lott)

Patients' Bill of Rights Plus Act Among other things, expands eligibility for MSAs by eliminating numerical limits on them, allowing all employers to offer them, allowing all individuals generally to have them, increasing the deduction for contributions, lowering the minimum insurance deductibles (prior to applying the const-of-living adjustment) to $1,000 for single coverage and $2,000 for family coverage, and eliminating the penalty for non-qualified withdrawals that do not reduce the account balance to less than the annual insurance deductible. Also authorizes MSAs and high deductible insurance under the Federal Employees Health Benefits Program (FEHBP). In addition, allows full deduction of health insurance costs by self-employed taxpayers; also allows carryovers and rollovers (to deferred compensation plans) with respect to cafeteria plans and FSAs. Introduced January 22, 1999; referred to Committee on Finance.

FOR ADDITIONAL READING

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