Tax Options

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DRAFT: HEALTH TAX OPTIONS

GROUP HEALTH INSURANCE

- **Expanding small business purchasing coalitions**: The President's FY2000 budget proposed to (1) give small firms (fewer than 25 employees) that do not offer health insurance a temporary (2 year) tax credit of 10 percent of their contribution towards health insurance, up to $200 per individual, $500 per family for purchasing health insurance through purchasing coalitions; and (2) allowing donations from foundations to coalitions from foundations for start-up to be considered charitable. The option would sunset in 2003. This proposal could be expanded by:

  - Making all small businesses participating in coalitions (not just those that do not current offer health insurance) eligible for the tax credit; or

  - Increasing the amount of the credit to 20 percent of the employer contribution up to a limit of $400 per individual, $1,000 per family.

- **Tax credit for purchasing COBRA coverage**. Currently, firms with greater than 25 employees must allow eligible workers the option to buy into their group health insurance for 18 months after leaving their jobs. The premium for such coverage would be 102 percent of the premium for the active workers. Although less expensive than what could be found in the private individual insurance market, the premiums still contribute to the low participation in this option. This proposal would:

  - Offer a refundable tax credit up to a specified income limit for people to purchase COBRA. Because COBRA is time-limited, this credit would be as well.

- **Tax credits for employee share of premium.** One of the suggested reasons why the number of uninsured is increasing is the higher premiums associated with employer-based insurance. This policy would provide a refundable tax credit for the employee share of health insurance for lower-income workers. It would subsidize the full employee contribution (with a cap at 50 percent of the premium) for individuals or families with income below x. It would phase out this subsidy for workers with incomes up to y. This proposal would include an option for employers to claim the credit on behalf of low-income workers if they do not deduct the employee share of the premium from the weekly or monthly paychecks. This option would use monthly income for eligibility to facilitation reconciliation – employers themselves would be responsible for any over- or under-payments that result.

INDIVIDUAL HEALTH INSURANCE

- **Credits conditional on the type of policy purchased by the individual.** Allow refundable credit for low-income individuals or families who purchase individual insurance policies that meet certain criteria (e.g., minimum value equal to FEHBP Blue Cross Blue Shield standard option; community rated). Could also allow credit to be used for Medicaid or Medicare buy-ins, CHIP, or other state-run health insurance programs. Question: restricted to uninsured? Time-limited?

- **Credits conditional on broader insurance reform**: Allow refundable credit for low-income individuals or families if there is broader individual insurance reform (e.g.., community rating, guarantee issue, minimum value of coverage).

- **Credits for state-designated private health insurance [new]**: Allow refundable credit for low-income, uninsured people to purchase selected insurance policies. These credits would be available only for group policies that the state designates as meeting minimum standards. States would determine eligibility for the credit (e.g., assess whether the person was previously insured; test the income to set the credit) and the credit would be given to the insurer on behalf of the individual or family. The insurer would provide a community rated premium to all participants and would deduct the amount of the credit.

LONG-TERM CARE

- **Expand eligibility through lowering eligibility from 3+ ADLs from 2+ ADLs.** This change to the President's FY2000 policy would add about 400,000 people and cost $xx.

- **Expand eligibility through refundability**. Change the President's FY2000 budget proposal to make the tax credit refundable.