Taxes and the American Health Care Act

On May 4, 2017, the U.S. House of Representatives passed the American Health Care Act (AHCA) by a vote of 217-213 to repeal and replace the Patient Protection and Affordable Care Act (ACA). The AHCA makes significant changes to current law affecting health insurance coverage, costs, and the stability of the health insurance marketplace. The provisions of the bill represent some of the more prominent ideas in health care reform. It is possible that some or all of the proposed changes may resurface in a future reform measure.

Provisions of the bill

Elements of AHCA include a restructuring of the premium tax credits that lower health care costs for consumers. The bill also repeals the individual and employer mandate penalties and several excise taxes that were put in place to offset the cost of the ACA. The bill's proposed tax policies are projected to have wide-ranging effects on the U.S. health care system. Other tax-related features of the AHCA include:

- ***A repeal of the individual mandate penalty:*** Under the ACA, most Americans are required to purchase health insurance. Failure to do so results in a tax penalty called the individual shared responsibility payment. While the AHCA does not remove the legal mandate put in place by the ACA, it does remove the tax penalty associated with the requirement. To encourage continuous coverage, the AHCA requires that insurance companies charge consumers in the individual market a 30 percent surcharge for lapsed coverage that exceeds 63 days. Beginning in 2019, the bill would allow states to apply for a waiver from the U.S. Department of Health and Human Services to replace this penalty with a health status rating allowing for higher premiums based upon health status.
- ***A repeal of the employer mandate penalty:*** Under the ACA, businesses with 50 or more employees that fail to provide adequate health insurance or fail to make affordable insurance available are levied a tax penalty. The AHCA repeals the penalty associated with this requirement.
- ***Establishment of an age-based, premium subsidy:*** Under the ACA, advance refundable tax credits are provided to consumers to reduce the cost of premiums. The amount of these subsidies is based upon income, local health care costs, and age. The AHCA would establish flat, age-adjusted tax credits that would increase premium costs by age. To assist older consumers, who are disproportionately impacted by the formula, the bill also includes $85 billion that would be allocated by the Senate to provide additional tax credits to consumers on the individual market.
- ***A delay of the "Cadillac Tax":*** The "Cadillac Tax" is a 40 percent excise tax levied on high-value, employer-sponsored health care plans. Under the ACA, the tax was originally scheduled to go into effect in 2018 and was intended to help curb the growth of health care costs and raise revenue for the ACA. Congress later pushed back its implementation until 2020. The AHCA would further delay enactment of the tax until 2026.
- ***An ease of the contribution restrictions on health savings accounts*:** Currently, the law allows individuals and families with high-deductible health plans to save in a tax-advantaged health savings account for out-of-pocket health care costs. Current contribution limits to health savings accounts are limited to $3,400 for individuals and $6,750 for families. The AHCA would raise the limits to $6,550 for individuals and $13,100 for families.

Other proposed changes include a repeal of the 3.8 percent tax on investment income and the 0.9 percent payroll tax on high-income individuals used to fund Medicare; a repeal of the excise taxes levied on health insurance companies, pharmaceutical companies, and medical device manufacturers; and a repeal of the tax credit provided to small businesses that offer health care to their employees. The bill would also repeal the excise tax on indoor tanning. The removal of these taxes would begin in 2017, with the repeal of the payroll tax slated for 2023.

The effect of the bill

Analyses of the AHCA reveal a number of implications of the law if passed. A cost estimate of the bill conducted by the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) finds that the reduced incentive for both consumers and employers through the repeal of the individual and employer penalties would result in an increase in the number of uninsured adults. According to the CBO and JCT, 14 million more people would be uninsured by 2018 and 24 million more by 2026. By the year 2026, 52 million Americans are expected to be uninsured.

The CBO and JCT also project that due to changes in the premium subsidy, along with other proposed changes to current law, many Americans would experience an initial increase in premium costs, followed by a decline. Projected offsets by other features of the bill, such as grants to states, changes to insurer rules, and a younger risk pool, are expected to lower premiums after 2020, ultimately below what is estimated for the ACA.

The anticipated reduction in premiums would not be experienced by all populations. The age-based premium credit formula proposed by the bill is expected to not only have an adverse effect on older adults, but also low-income consumers and individuals residing in high-cost areas.

County-level analysis of the bill by the Kaiser Family Foundation demonstrates the financial impact of proposed premium credits on consumers by age and income in 2020. For example, the following chart illustrates the impact to consumers making $30,000 in St. Louis County and St. Louis City:

Projected premiums under the ACA and the AHCA for St. Louis City and County in 2020

Enrollee	Premium and Tax Credit Under the ACA	Premium and Tax Credit Under the AHCA	Percent Change from ACA to AHCA
27-year-old	$3,600 ($1,120 in tax credits)	$3,320 ($2,000 in tax credits)	-47%
40-year-old	$4,390 ($1,910 in tax credits)	$4,390 ($3,000 in tax credits)	-44%
60-year-old	$9,320 ($6,840 in tax credits)	$12,520 ($4,000 in tax credits)	243%

*Source: Kaiser Family Foundation analysis

For city and county residents, the disparate impact to older adults worsens as income declines. For example, in 2020 a 60-year-old adult making $20,000 a year would expect a premium of $9,320 with $8,360 in tax credits under the ACA. Under the proposed measure, a 60-year-old adult of the same income would expect a premium of $12,520 with $4,000 in tax credits, a 789 percent increase above what is projected under the ACA.

In addition to the structure of the premium tax credit, older consumers would be disproportionately impacted by other elements of the bill, such as the establishment of a new age band rating — a limited range by which insurers may charge consumers. Under the ACA, insurers may only charge older consumers up to three-times more than younger consumers. The AHCA would establish a less restrictive ratio that allows insurers to charge older enrollees up to five-times more than younger adults.

Beginning in 2018, the measure would also allow states to apply for a waiver from this requirement to increase the age band rating beyond the 5 to 1 ratio outlined in the bill.

While certain features of the proposed law provide a form of tax relief for some consumers, changes to the funding of Medicaid and the elimination of other provisions, such as the cost-sharing subsidies, are likely to make health insurance more costly and difficult to acquire for others, especially low-income individuals. The proposed changes may also result in less diverse risk pools, due to fewer and sicker enrollees, factors that may increase costs over time.

Endnotes available upon request.