

Issue Brief

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More on House Republican Repeal and Replace of the ACA – Cost Estimates

On Monday, House Republicans released their legislative proposal – The American Health Care Act – that would repeal and replace much of the Affordable Care Act. More information is becoming available, including cost estimates from The Joint Committee on Taxation. JCT estimates the changes it reviewed would cost nearly \$600 billion in lost revenue over 10 years. Additional cost impacts are expected soon from the Congressional Budget Office.

JCT amounts do not include revenue losses from several other provisions, including funds tied to repealing the individual and employer mandates.

However, repealing the net investment income tax, is estimated to cost \$157.6 billion, and is one the largest revenue losers. JCT says the 3.8 percent tax on investment income for wealthy individuals has raised more money than originally expected.

COMMENT

Much is already being said about the proposed legislation from both Republicans, Democrats and the media. The debate seems to center on who is helped and who will lose under the new mandates. If anything, the issue is becoming more clouded and enactment is anything but a certainty.

Below are cost estimates from JCT.

REPEAL OF NET INVESTMENT INCOME TAX

The ACA imposed a tax with respect to net investment income of certain high-income individuals, estates and trusts. The individual tax is 3.8 percent of the lesser of net investment income or the excess of modified adjusted gross income over a threshold amount. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, \$125,000 in the case of a married individual filing a separate return, and \$200,000 in any other case.

The proposal repeals the 3.8 percent tax on net investment income and would be effective for taxable years beginning after December 31, 2017.

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ESTIMATED REVENUE EFFECT

Fiscal Years [Billions of Dollars]											
2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
-1.5	-10.5	-7.5	-16.7	-17.8	-18.7	-19.7	-20.7	-21.7	-22.7	-54.1	-157.6

REPEAL OF ANNUAL FEE ON BRANDED PRESCRIPTION PHARMACEUTICAL MANUFACTURERS AND IMPORTERS

An annual fee is imposed on covered entities engaged in the business of manufacturing or importing branded prescription drugs for sale to any specified government program. Fees collected are credited to the Medicare Part B trust fund. The aggregate annual fee imposed on all covered entities is \$4 billion for calendar year 2017, \$4.1 billion for calendar year 2018, and \$2.8 billion for calendar year 2019 and thereafter.

Under the proposal, the annual fee on branded prescription pharmaceutical manufacturers and importers applies for calendar years ending before 2018. Thus, the annual fee does not apply for any calendar year beginning after 2017. The proposal would be effective upon enactment.

REPEAL OF ANNUAL FEE ON HEALTH INSURANCE PROVIDERS

An annual fee applies to any covered entity engaged in the business of providing health insurance with respect to United States (“U.S.”) health risks. The aggregate annual fee for all covered entities is \$8 billion for calendar year 2014, \$11.3 billion for calendar years 2015 and 2016, \$13.9 billion for calendar year 2017, and \$14.3 billion for calendar year 2018. However, a one-year moratorium applies to the annual fee on health insurance providers for calendar year 2017. For calendar years after 2018, the applicable amount is indexed to the rate of premium growth.

Under the proposal, the annual fee on health insurance providers applies only for calendar years beginning after 2013 and before 2017. Thus, the annual fee would not apply for any calendar year beginning after 2016. The proposal is effective upon enactment.

Fiscal Years [Billions of Dollars]												
Item	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
Repeal annual fee on branded prescription pharmaceutical manufacturers and importers.....	---	-3.1	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-11.2	-24.8
Repeal of annual fee on health insurance providers.....	---	-12.8	-13.5	-14.3	-15.1	-15.9	-16.8	-17.8	-18.7	-19.7	-55.7	-144.7

REPEAL OF TANNING TAX

A retail sales tax is imposed on indoor tanning services. The tax rate is 10 percent of the amount paid for such services, including any amount paid by insurance. The tax would not apply to services performed after December 31, 2017.

Fiscal Years [Billions of Dollars]											
2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
---	[1]	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6

REPEAL OF DEDUCTION LIMIT ON REMUNERATION FROM HEALTH INSURANCE PROVIDERS

An employer generally may deduct reasonable compensation for personal services as an ordinary and necessary business expense. However, in the case of a covered health insurance provider, the deduction allowable for compensation attributable to services performed by an applicable individual during a taxable year (“applicable individual remuneration”) is limited to \$500,000.

Under the proposal, the limit on the deduction of a covered health insurance provider for compensation attributable to services performed by an applicable individual would no longer apply. The proposal would be effective for taxable years beginning after December 31, 2017.

Fiscal Years [Billions of Dollars]											
2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
---	[1]	[1]	[1]	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4

[1] Loss of less than \$50 million.

ESTIMATED REVENUE EFFECTS OF BUDGET RECONCILIATION LEGISLATIVE RECOMMENDATIONS RELATING TO REPEAL AND REPLACEMENT OF CERTAIN HEALTH-RELATED TAX POLICY PROVISIONS CONTAINED IN THE ACA

Fiscal Years 2017-2026 [Billions of Dollars]													
Provision	Effective	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
Revenue Provisions													
1. Recapture excess advance payments of premium tax credits	tyba 12/31/17	Estimate included in CBO Estimate of Coverage Provisions											
2. Additional modifications to premium tax credit	tyba 12/31/17 & tyba 12/31/18	Estimate included in CBO Estimate of Coverage Provisions											
3. Premium tax credit	[1]	Estimate included in CBO Estimate of Coverage Provisions											
4. Small business tax credit	[2]	Estimate included in CBO Estimate of Coverage Provisions											
5. Individual mandate.	mba 12/31/15	Estimate included in CBO Estimate of Coverage Provisions											
6. Employer Mandate	mba 12/31/15	Estimate included in CBO Estimate of Coverage Provisions											
7. Repeal 40% excise tax on health coverage in excess of \$10,200/\$27,500 (subject to adjustment for unexpected increase in medical costs prior to effective date) and increased thresholds of \$1,650/\$3,450 for over age 55 retirees or certain high-risk professions, both indexed for inflation by CPI-U (CPI-U plus 1% for 2019); adjustment based on age and gender profile of employees; vision and dental excluded from excise tax; levied at insurer level; employer aggregates and issues information return for insurers indicating amount subject to the excise tax (repeal sunsets 12/31/24) [3][4]	tyba 12/31/19	---	---	---	-3.4	-6.9	-8.7	-10.7	-13.6	-5.5	--	-10.3	-48.7
8. Repeal exclusion of non-prescribed over-the-counter medicines from the definition of medical expenses for health savings accounts ("HSAs"), Archer MSAs, health flexible spending arrangements, and health reimbursement arrangements [4][5]	apaeiwrt tyba 12/31/17	---	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-2.1	-5.5
10. Repeal limitation on health flexible spending arrangements in cafeteria plans [4][5]	dma 12/31/17	--	-0.3	-1.2	-1.6	-1.7	-1.8	-2.2	-2.6	-3.3	-4.1	-4.7	-18.6
11. Repeal 2.3% excise tax on manufacturers and importers of certain medical devices.	sa 12/31/17	--	-1.4	-1.9	-2.0	-2.1	-2.2	-2.3	-2.4	-2.6	-2.7	-7.4	-19.6
12. Reinstate deduction for expenses allocable to Medicare Part D subsidy.	tyba 12/31/17	--	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.6	-1.7

Fiscal Years 2017-2026 [Billions of Dollars]

Provision	Effective	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-21	2017-26
13. Extend the 7.5% AGI floor in 2017 for elderly taxpayers and repeal increase in AGI floor on medical expenses deduction from 7.5% to 10%; apply 7.5% floor for alternative minimum tax	tyba 12/31/16 & tyba 12/31/17	-0.2	-2.0	-3.2	-3.4	-3.6	-3.9	-4.2	-4.5	-4.8	5.1	-12.4	-34.9
14. Repeal additional HI tax of 0.9% on earned income in excess of \$200,000/\$250,000 (unindexed).	rra & tyba 12/31/17	-0.4	-6.5	-10.1	-11.4	-12.3	-13.2	-14.1	-15.2	-16.5	-17.6	-40.8	-117.3
15. Refundable health credit for health insurance coverage.	mba 12/31/19 in tyea sd	Estimate included in CBO Estimate of Coverage Provisions											
16. Maximum contribution limit to HSA increased to amount of deductible and out-of-pocket limitation [4]	tyba 12/31/17	--	-1.0	-1.6	-1.7	-1.9	-2.1	-2.3	-2.5	-2.7	-2.9	-6.2	-18.0
17. Allow both spouses to make catch-up contributions to the same HSA [4]	tyba 12/31/17	--	[6]	[6]	[6]	[6]	[6]	[6]	[6]	-0.1	-0.1	-0.1	-0.4
18. Special rule for certain medical expenses incurred before establishment of HSA [4]	cba 12/31/17	--	[6]	[6]	[6]	[6]	[6]	[6]	[6]	[6]	[6]	-0.1	-0.2
Net Totals		-0.6	-11.7	-18.7	-24.3	-29.3	-32.7	-36.6	-41.7	-36.4	-33.4	-84.7	-265.6

NOTE: Details may not add to totals due to rounding. The date of enactment is assumed to be before April 1, 2017.

Legend for "Effective" column:

apaeiwrt = amounts paid and expenses incurred with respect to
 rra = remuneration received after
 tyea = taxable years ending after

mba = months beginning after
 tyba = taxable years beginning after

sd= such date
 dma = distributions made after

cba = coverage beginning after
 sa = sales after

- [1] This provision is effective for months beginning after December 31, 2019, in taxable years ending after such date and subsection (b) shall take effect on January 1, 2020.
- [2] This provision is effective for taxable years beginning after December 31, 2017 and taxable years beginning after December 31, 2019.
- [3] This estimate does not include effects of interactions with other subsidies; those effects are included in estimates of other relevant provisions.
- [4] Estimate includes off-budget effects.
- [5] This estimate includes the effects of interactions with the proposal to increase the maximum contribution limit to HSAs.
- [6] Loss of less than \$50 million.



Analysis provided for MHA
 by Larry Goldberg,
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continued