



Fact Sheet

South Carolina Policy Council

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New Taxes Imposed by the Federal Health Care Takeover

The [Patient Protection and Affordable Care Act](#) (PPACA) is expected to cost trillions and increase the national debt by hundreds of billions of dollars. All in all, taxpayers are looking at \$669 billion in new taxes over the next 10 years to pay for the federal health care takeover.¹ This is in addition to billions of dollars in regulatory fines and fees.

New Payroll Taxes

1 percent payroll tax increase. The current Medicare payroll tax of 2.9 percent – 1.45 percent paid by the employer and 1.45 percent by the employee – will increase by 0.90 percent, raising the total tax to 3.8 percent as of 2013. Instead of being split evenly with the employer, the full increase will be assessed on individuals who earn more than \$200,000 and couples who earn more than \$250,000. An estimated 82 percent of small businesses in South Carolina file as individual earners (2007, latest data available) and, among these, about 4 percent (12,404) report more than \$200,000 in income. Those small businesses – e.g., attorneys, investment managers, realtors – that can't deduct for Medicare payroll taxes will see a significant tax increase. (This is in addition to the recent reduction of the Federal [Unemployment Tax credit](#) from 5.4 percent to 5.1 percent for S.C. employers.)

New Income Taxes

3.8 percent capital gains tax increase. This Medicare tax will be applied to all investment/unearned income for individuals who earn more than \$200,000 and couples who earn more than \$250,000. The new tax will apply to real estate, including homes. If the Bush tax cuts expire after 2012, this new tax will raise the federal capital gains tax to almost 24 percent. This is on top of the current state capital gains tax of 3.92 percent (for residents).

New limits on medical deductions. PPACA also raises the threshold for itemized medical deductions from 7.5 percent of adjusted gross income (AGI) to 10 percent. Individuals with high medical expenses are hit hard by this tax increase.

New limits on HSA withdrawals and purchases. The Patient Protection and Affordable Care Act doubles the tax penalty (from 10 percent to 20 percent) on HSA withdrawals for nonmedical purposes. This provision alone is expected to raise taxes by \$1.4 billion over 10 years. In addition, the new law prohibits the use of HSA dollars for over-the-counter medications (excluding insulin). This tax increase also affects those with flexible spending accounts (FSAs), health reimbursement arrangements (HRAs), and Archer MSAs.

¹Michael Tanner, [Bad Medicine](#), Washington, D.C.: The Cato Institute (2010), Exec. Summary.

Multibillion dollar tax on insurers based on market share. Beginning in 2014, health insurers will be assessed an annual fee prorated according to market share. The fee begins at \$8 billion per year and increases to \$14.3 billion annually by 2018. The [National Federation of Independent Business \(NFIB\)](#) has stated that “this is not a tax insurers will be paying, [but] a tax on small businesses’ health insurance plans.”

New Sales/Excise Taxes

40 percent tax on comprehensive insurance plans. In 2018, PPACA will impose a 40 percent tax on so-called Cadillac insurance plans – plans valued at more than \$10,200 for an individual and \$27,500 for families. The tax will be paid by insurers or employers that self-insure.

Multibillion dollar tax increase on prescription drugs. PPACA will levy an unspecified tax on name brand prescription drugs. The tax is supposed to raise between \$2.5 billion and \$4.2 billion. As Michael Tanner of the Cato Institute explains: “[The tax is levied on] pharmaceutical manufacturers according to a formula based on the company’s aggregate revenue from branded prescription drugs. The structure of this tax almost guarantees that it will be passed along to consumers through higher prices.”

2.9 percent federal sales tax on all medical devices and instruments. This tax, which goes into effect in 2013, will increase health care costs at every level – from family doctors to surgeons to laboratory researchers. The new tax is expected to cost the average family of four \$1,000 a year.

10 percent tax on tanning services. This tax went into effect on July 1, 2010, and makes virtually no distinction between cosmetic and medical tanning services (phototherapy services performed by a licensed medical professional are exempt). This will likely be the first of many new health care “sin” taxes.

In addition to these new taxes, the federal health care takeover imposes billions of dollars in new fines and fees. (To read more about the important distinction between PPACA taxes and regulatory fines/fees, [see here](#).)

Sources: [Patient Protection and Affordable Care Act](#); [Health Care and Education Reconciliation Act of 2010](#); Michael Tanner, [Bad Medicine](#) (Cato Institute, 2010).

To learn more about how South Carolina can push back against the federal health care takeover, see our new policy brief: [State Tax Reform Can Ease the Pain of the Federal Health Care Takeover](#)

*Nothing in the foregoing should be construed as an attempt to aid or hinder passage of any legislation.
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