NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

Financing Health Care Reform and Improving Tax Fairness: Make Wealthy Investors Pay Their Fair Share to Support Medicare

(March 29, 2010)

The two health reform bills enacted this month – the Patient Protection and Affordable Care Act and the Health Reform and Student Federal Loan Reconciliation Act (H.R. 4872) – will make insurance more affordable and more accessible for about 32 million Americans who are not insured today, bring greater accountability to the health insurance industry, end discrimination against Americans with pre-existing conditions, and reduce deficits by $143 billion over the next ten years.

One key financing proposal will increase the Medicare tax for taxpayers with incomes above $200,000 for singles, $250,000 for couples by applying the Medicare tax to currently-exempt investment income and increasing the tax on earnings above a specific threshold.

All taxpayers pay Medicare tax on their earnings, at the same flat rate of 1.45 percent (matched by employers), starting with the first dollar. Self-employed workers pay the entire 2.9 percent tax themselves. But investment income, such as interest, dividends, and capital gains – which is overwhelmingly received by the highest-income taxpayers – has been exempt from tax.

To ensure that the wealthy pay their fair share to support Medicare, the new law includes:

- A 3.8 percent Medicare tax on investment income, applicable to taxpayers with incomes above $200,000 if single, $250,000 if married filing jointly; and
- A 0.9 percent increase in the Medicare tax on earnings above $200,000 for a single taxpayer, $250,000 for married couples filing jointly.

By including investment income in the Medicare tax base and making the tax on earnings more progressive, this provision strengthens Medicare's finances, makes health care funding more equitable, and results in expanded access to health care.

- The new law will help prevent the wealthy from escaping Medicare taxes on much of their income, while average workers pay the Medicare tax on virtually all of their income.
- The increases will apply only to taxpayers with incomes above $200,000 ($250,000 if married filing jointly) – about the top two percent of taxpayers. More than three-quarters of the new tax will be paid by households with incomes above $1 million, according to Tax Policy Center estimates. Retirees are protected, because distributions from qualified retirement plans such as 401(k)s and pension plans are excluded from the tax on investment income.
- The new law takes effect in 2013 and is estimated to raise $210.2 billion over ten years, according to the Joint Committee on Taxation, to strengthen Medicare and help finance health care reform.

11 Dupont Circle ■ Suite 800 ■ Washington, DC 20036 ■ 202.588.5180 ■ 202.588.5185 Fax ■ www.nwlc.org