NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

Financing Health Care Reform and Improving Tax Fairness: A Surcharge on the Wealthiest Taxpayers

The health care reform bill being considered in the House, America's Affordable Health Choices Act of 2009 (H.R. 3200), would expand access to affordable, comprehensive health care coverage and would offset the cost through a combination of spending reductions, insurance market reforms, and a surcharge on the very wealthy.

The bill's chief financing mechanism is a graduated income tax surcharge on the wealthiest 1.2% of taxpayers, starting in 2011. It would raise $544 billion over ten years and provide a stable funding source for the health care coverage so badly needed by low-income women and families.

The surcharge would only apply to income above $350,000 for a couple ($280,000 for an individual), so 98.8% of taxpayers would not be affected. Specifically:

- Starting in 2011, there would be an additional tax of 1% on income between $350,000 and $500,000, 1.5% on income between $500,000 and $1 million, and 5.4% on income above $1 million, for a couple. (Income levels for individuals are 80% of couples'.)
- If reforms to the health care system produce savings above a certain amount, the only surcharge would be the 5.4% on income above $1 million ($800,000 for individuals). If savings do not reach a certain amount, the first two tax rates would rise in 2013 to 2% and 3%, respectively.

The surcharge would improve tax fairness, after years of tax cuts that have disproportionately benefited the very wealthiest.

Congressional Budget Office data show that incomes of the top 1% of households have grown faster than any other income group over the last three decades:

- After-tax income of the wealthiest households rose by 256% from 1979 to 2006, compared to an increase of just 21% for those with earnings in the middle of the scale.
- Tax rates on the wealthiest households have dropped dramatically: the effective tax rate for the top 1% of households fell from 36% in 1996 to 31.2% in 2006.
- The combined effect on the wealthy of the proposed surcharge *and* the President's proposal to let tax cuts enacted in 2001 and 2003 expire at the end of 2010 for people with incomes over $250,000 would still leave effective tax rates for the top 1% below their 1996 levels.

The surcharge would have no effect on the vast majority of small businesses.

- About 96% of taxpayers with business income would be exempt from the surcharge, according to the Tax Policy Center.