



## **Myth vs. Fact: Affordable Care Act and Taxes**

*The Affordable Care Act provides over \$800 billion in tax relief, including a \$4,000 tax cut for more than 18 million middle-class Americans. As part of their efforts to repeal health reform, Republicans falsely claim it is a tax increase at the same time they would eliminate the tax relief the law provides. Instead of refighting old political battles and working to give millionaires more tax breaks at the expense of the middle class, Republicans should join with Democrats in working to create jobs and build an economy that lasts.*

*Myth – Health reform includes the biggest tax increase in American history.*

Fact – Health reform is a large health care tax cut for the middle class, with families and small businesses benefiting the most.

### **The Affordable Care Act Cuts Taxes**

- **The law has over \$800 billion in tax cuts for middle class families and small businesses.** Under the law, middle class families and small businesses will receive \$828 billion in tax cuts over the next ten years, including a tax decrease of \$270 billion for families. An estimated 18 million individuals and families will receive tax credits of about \$4,000 each to help them afford health care coverage. [[CBO](#), 3/12; [JCT](#), 6/15/12; [WH](#), 6/28/12; [Senate Finance Committee](#), 6/29/12]
- **The law also reduces the “hidden tax” paid by middle class families to cover free riders.** The uninsured require hundreds of billions of dollars’ worth of care from hospitals, doctors, and other providers. Nearly one-third of these costs remain unpaid, forcing hospitals and providers to charge insurers more for health services. These higher charges are then passed on to families as a “hidden tax,” increasing each family’s premiums by \$1,017. [[Families USA](#), 5/28/09]
- **Providing tax relief and eliminating the hidden free rider tax will make the average household \$1,500 better off.** As a result of both the tax credits and reduction in the “hidden tax,” on average, each household in the country will be \$1,571 better off in 2019 under ACA. Households with income of less than \$100,000 will receive the greatest financial benefit as a result of these two improvements:
  - Households with income under \$30,000 will be \$3,384 better off, paying \$1,006 less in premiums;
  - Households with income between \$30,000 and \$50,000 will be \$1,907 better off, paying \$903 less in premiums;
  - Households with income between \$50,000 and \$100,000 will be \$1,027 better off, paying \$715 less in premiums.

This analysis is available at the state level [here](#). [[Families USA](#), 11/3/11]

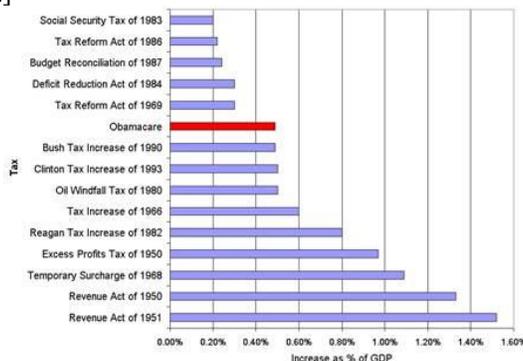
- **Washington Post:** The Washington Post fact-checkers validated White House Chief of Staff Jack Lew’s argument that “more middle-class people are going to get a tax cut” under the law than see an increase in their tax liability. According to the Post, “**we have reviewed the numbers for tax hikes versus tax breaks for the middle class, and we found nothing to dispute Lew’s statements. The health law, if it works as the nonpartisan government analysts expect, will provide more tax relieve than tax burden for middle-income Americans.**” [[Washington Post](#), 7/2/12]

### Middle Class Families Will Receive a Significant Net Tax Cut

- **Families earning less than \$250,000 will receive nearly half a trillion in tax credits to make health insurance more affordable.** These households will receive \$828 in tax cuts over ten years, resulting in a \$588 billion net tax cut. [[Senate Finance Committee](#), 6/29/12]
- **Revenue provisions included in the law will have minimal impact on middle class families.** Over 70 percent of revenue generated through ACA comes exclusively from individuals earning more than \$200,000 a year, with the majority of the remaining revenue coming from individuals electing excessively high-cost health insurance plans. The remaining revenue provisions are listed below, and according to the Washington Post Fact Checker, “**it’s a stretch to say that any of these taxes will affect the middle class.**” [[Senate Finance Committee](#), 6/29/12; [Washington Post](#), 7/6/12]
  - Free Rider Penalty (\$17 billion)
  - Increase AGI Floor on Medical Expense Deduction (\$13 billion)
  - Eliminate Subsidy for Over-the-Counter Drugs (\$5 billion)
  - Indoor Tanning Tax (\$2.7 billion)
  - Increase Penalty on early HSA Withdrawals (\$1.4 billion)

### Republican Laws Have Raised Significantly More Revenue Than ACA

- **President Ronald Regan signed legislation into law raising 60% more revenue than ACA.** Since 1950, nine other laws were established raising more revenue than the health reform law, including three which raised twice as much. [[Treasury](#), 6/6/11; [Washington Post](#), 7/2/12]



[[Washington Post](#), 7/2/12]

- **PolitiFact.com: The non-partisan fact checkers rate the GOP claim as “Pants on Fire**, arguing “In a race to score political points, several conservatives repeated – or inflated – an incorrect claim. They said that the law includes the largest tax increase in U.S. history... Limbaugh’s inflated rhetoric takes a wrong claim and puts it into the realm of the ridiculous.” [[PolitiFact](#), 6/29/12]

*Myth – The free rider penalty is the biggest tax increase in history.*

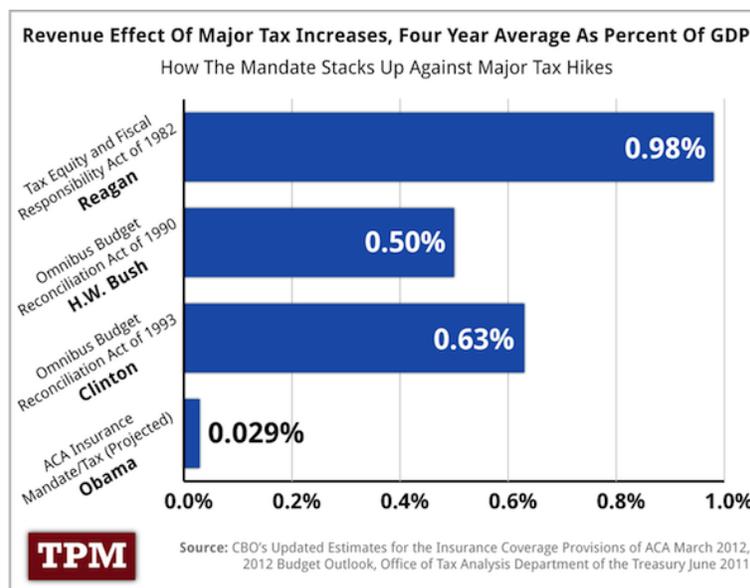
Fact – Only 1 percent of Americans will be impacted by the free rider penalty.

**Only 1 Percent of Americans Will be Impacted by the Free Rider Penalty:**

- **Under health reform, nearly 99 percent of Americans will never have to pay a penalty for failing to purchase health insurance.** The free rider penalty will apply only to those who do not have insurance through an employer, do not qualify for subsidies, and can buy insurance but simply choose not to. This means that only 1 percent of Americans will have to pay any penalty for failing to have health insurance.
  - Nearly two-thirds of these individuals will be offered coverage through their employer, eligible for premium subsidy tax credits or eligible to enroll in Medicaid, but they decline. In almost every case, the subsidy tax credits they forgo would be greater than the penalty they would face;
  - One-third of these individuals have incomes greater than 400% of the poverty line. (\$92,200 for a family of four). [[CBO](#), 4/22/10; [Census](#), access on 7/5/12; [Families USA](#), accessed on 7/5/12]

**Republican Laws Have Raised Significantly More Revenue Than the Free Rider Penalty Included in ACA**

- **Both Presidents Ronald Reagan and George H. W. Bush signed legislation into law raising dramatically more revenue than the free rider penalty included in ACA.** [[Treasury](#), 6/6/11; [Washington Post](#), 7/2/12]



[[TPM](#), 7/2/12]

## **Free Rider Penalty is a Creation of the Republican Right**

- **The free rider penalty was proposed by the Heritage Foundation.** In 1989, the Heritage Foundation first proposed the free rider penalty, stating that, “If a man is struck down by a heart attack...Americans will care for him whether or not he has insurance...even if that means more prudent citizens end up paying the tab. A mandate on individuals recognizes this implicit contract.” Heritage argued that a mandate was essential to any health reform effort and a fine could be imposed on those individuals failing to comply. [[Heritage Foundation](#), 10/1/89; [Heritage Foundation](#), 1/2/89; [Washington Post](#), 3/26/12]
- **Governor Romney’s health reform law served as the model for the ACA.** As the model for ACA, the Massachusetts’ law aimed to achieve near-universal coverage through health insurance premium subsidies, expanded Medicaid eligibility, and a state health insurance exchange. In order for premiums to remain affordable through the Health Connector, the state required that nearly every resident purchase a minimum level of state-sanctioned coverage. Gov. Romney explained, “Using tax penalties, as we did... encourages ‘free riders’ to take responsibility for themselves rather than pass their medical costs on to others. This doesn't cost the government a single dollar.” [[Kaiser Family Foundation](#), 5/21/12; [USA Today](#), 7/20/09]
- **The free rider penalty included in ACA is less punitive than Republican proposals.** In Massachusetts, Governor Romney’s free rider penalty is currently \$1,260, compared to \$95 in 2014, \$325 in 2015, and \$695 in 2016 under ACA. From 2017 on the ACA’s free rider penalty increases by a cost-of-living adjustment. [[Massachusetts Health Connector](#), accessed on 6/12; [Kaiser Family Foundation](#), accessed on 7/5/12]