



## NEW HEALTH CARE TAXES TO SLAM TRI-STATE AREA

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President Obama's latest health reform proposal, released early this week, alters the tax implications of legislation previously passed in the House and the Senate. The "Cadillac Tax" on high-priced insurance plans will be significantly reduced. Originally slated to raise over \$200 billion over ten years, the Cadillac Tax will now be delayed until 2018 and will raise only 15 to 30 percent of the original figure, depending on how it is implemented.

Under the new plan, this foregone revenue will be replaced (and then some) with a further expansion of the Medicare tax on high-income earners, currently 2.9 percent on all earned income. The president's plan would raise the Medicare tax to 3.8 percent on income over \$200,000 (\$250,000 for joint filers) in line with the plan passed by the Senate. Unlike the Senate's bill, however, it would also expand the 2.9 percent tax to unearned income for those high-income filers.

The initial release from the White House specified that the unearned income tax would apply to income including interest, dividends, rents, and royalties. A White House official confirmed on background to Bloomberg News that the tax would also apply to the largest unearned income category—capital gains.

Taxpayers in New York, New Jersey, and Connecticut have higher average incomes than the country as a whole, and also tend to receive a greater share of their income as unearned income. Therefore, these tax provisions would disproportionately affect the tri-state area.

Based on a very preliminary Joint Committee on Taxation score of the Obama plan and 2007 IRS Statistics of Income data, I have calculated estimates of national collections from these tax provisions in the year 2016, and collections for each state in the New York region.

Overall, our three states would pay about 20 percent of these new taxes, despite being home to just 10 percent of the population and earning only 14 percent of national adjusted gross income. Collections from the three states would total \$9.8 billion per year in 2016, including \$6.1 billion from New York State alone. For comparison, last year's state income tax increase—the largest in New York history—raised less than \$4 billion.

This is a rough estimate and will be revised when a formal JCT score is released next month.

State	CT	NJ	NY	Tri-state	US
Earned income surcharge	\$0.5	\$0.9	\$1.8	\$3.2	\$13.1
Unearned income tax (except cap gains)	\$0.4	\$0.6	\$1.8	\$2.8	\$15.4
Cap gains tax	\$0.6	\$0.7	\$2.5	\$3.8	\$20.8
Total	\$1.5	\$2.2	\$6.1	\$9.8	\$49.3
Earned income surcharge	4.1%	6.9%	13.4%	24.4%	
Unearned income tax (except cap gains)	2.7%	4.0%	11.8%	18.5%	
Cap gains tax	2.8%	3.3%	12.2%	18.3%	
Total	3.1%	4.5%	12.4%	20.0%	
Share of national adjusted gross income	1.8%	3.8%	7.9%	13.6%	
Share of population	1.2%	2.9%	6.4%	10.5%	

*Estimates of tax paid in the year 2016. Dollars in billions.*