The Daily Dish

Capping “The Exclusion”

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Yesterday Senators John Thune (R-SD) and Gary Peters (D-MI) announced they will draft a bipartisan bill to address the hurdles facing self-driving car manufacturers. Last year the National Highway Traffic Safety Administration (NHTSA) released a set of voluntary guidelines for autonomous vehicle manufacturers and there have been hearings on self-driving technology and its regulatory implications in the meantime. The Senators stated they would like to find ways to improve regulatory flexibility for autonomous vehicles while ensuring regulations impacting conventional automobiles are left untouched.

On Monday U.S. District Judge James Boasberg denied a request blocking the construction of the Dakota Access Pipeline (DAPL). Judge Boasberg stated that while he would not issue the temporary restraining order blocking the construction, he would ensure no oil would flow through the pipeline until he rules on the injunction that was previously filed. Last week the Trump Administration had the final permits needed to complete the construction of the DAPL. The pipeline injunction hearing is set for later in February.

Eakinomics: Capping “The Exclusion”

The Wall Street Journal featured a piece highlighting employer opposition to a common element of Obamacare replacement plans. What is going on?

Currently, individuals are not taxed on the value of health insurance provided to them by their employers. So, if your employer gives you $15,000 in wages or salary, it is taxable. If she buys you a $15,000 insurance policy, there are no taxes due. The uneven treatment is an artifact of wage and price controls during World War II. Unable to provide raises in the form of wages, employers decided to provide health coverage. This tax treatment, excluding the value of employer-sponsored insurance from tax, has been this way ever since — until Obamacare.

Obamacare features the "Cadillac tax", a 40 percent tax on the value of health insurance above a cap specified in the law. It proved to be an extremely unpopular provision and has been deferred several times. Currently it is scheduled to take effect in 2020. The replacement plans would repeal the Cadillac (and other) taxes, and replace it with a cap on the amount that would be excluded from tax. Advocates of capping the exclusion note that it is like the Cadillac tax in removing an open-ended incentive for larger insurance policies which may fuel spending on health care and limit raises in the form of wages. But it would be different in that it is consistent with the base-broadening in tax reform and would apply the tax at the "right" rate for each individual instead of an arbitrary 40 percent.

Nevertheless, it would, at least eventually, pressure employers to modify the value of policies that they provide. Indeed, when the Congressional Budget Office analyzed the Cadillac tax it assumed that it would raise revenue large because employers would modify their insurance and give their workers wage increases instead. The latter would be taxed under the income and payroll taxes, leading to the revenue gain. In the extreme, one might even imagine that a tight cap would cause employers to get out of the business (or never enter the business) of providing health insurance. Some recent work by the Center for Health and the Economy (see graph at the end) shows that modest caps have essentially no impact on the number of people covered, but draconian caps would have a noticeable impact. It will be interesting to see where the House and Senate land on this issue in the months to come.

The irony is that the Cadillac tax exists only because in 2008 Barack Obama criticized John McCain for his proposal to end the exclusion and "tax health insurance for the first time." (Full disclosure; I have PTSD from that ad.) Given that, he could hardly cap the exclusion in the law synonymous with his name and this the clunky and inefficient Cadillac tax was born. The debate may come full circle soon. Stay tuned.