



Insight

# Health-Related Tax Policy and the Extenders

DOUGLAS HOLTZ-EAKIN | DECEMBER 15, 2015

The Affordable Care Act (ACA) is full of [bad tax policy](#). First, there are a lot of taxes – more, in fact, than the American Taxpayer Relief Act (“fiscal cliff” deal) passed in January 2013. Second, the tax policy in the ACA is inefficient, at odds with the objective of raising revenue with as minimal interference on economic decisions as feasible, and not supportive of long-term growth. And, finally, the overwhelming economic burden, or incidence, of the ACA taxes will fall on those in the middle-range income brackets.

Those are among the reasons that Senate conservatives used the recent reconciliation bill to repeal every single one of the Obamacare taxes. Unfortunately, the president is expected to veto this effort.

Conservatives may get another bite at the apple – albeit with less than perfect policy – in the so-called extenders bill now before Congress. Specifically, reports indicate that the bill would provide for a 2-year halt of the [medical device tax](#), a 2-year delay of the [Cadillac tax](#), and a 1-year moratorium of the “premium tax” (the annual fee on health insurers).

Put differently, for two years the device tax will not cost jobs, stifle innovation, and [tilt the playing field](#) against the smaller companies who are less able to absorb the lost revenue and who represent over 90 percent of U.S. medical device companies. For two years, employers will not suffer the complexities of the Internal Revenue Service rulemaking to implement the Cadillac tax, employees will not endure higher insurance costs, and conservatives will have a window to develop alternative, sensible cost-control mechanisms. And for one year, the [premium tax](#) will not [push up insurance rates](#), make Medicare Advantage more costly and [burden the middle class](#).

Is this perfect? No. But no bill that has to pass the Senate and be signed by the president will be.

Conservatives should be wary of facile arguments that delaying the Cadillac tax is only a payoff to the unions, or a time out on the premium tax is simply an ACA insurer bailout. That frames the choice in terms of the dangerous progressive view of policymaking. Progressives use tax policy as a carrot or stick to implement their agenda. In their quest for political victory the integrity of the policy never enters the consideration.

Conservatives should set the bar higher. Bad tax policy is bad tax policy. It harms Americans and hinders overall economic growth. Conservatives should fight against bad policy to the extent politically feasible at every given opportunity.