Insight

JCX-58-17

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Spiffy title, huh? I have spent the day watching the Senate Finance Committee engage in a partisan brawl over Joint Committee on Taxation (JCT) document number JCX-58-17, and specifically the claim that tax reform is raising taxes on those making between $10,000 and $20,000. Only in the world of Washington budget scorekeeping could taking away a penalty for those who refuse to purchase something they don't want become a tax hike.

Let's get some facts straight.

The document addresses "Distribution Effects of the Chairman's Modification to the Chairman's Mark of the 'Tax Cuts and Jobs Act.'" The most notable modification was to include repealing the tax penalty for not having health insurance, colloquially known as "repealing the individual mandate." As is familiar from scores of the health care reform debate, the JCT and Congressional Budget Office (CBO) believe that in the absence of an enforceable legal requirement to have insurance, millions will choose to not buy individual insurance policies (or fail to sign up for Medicaid or decline their employers' offer of health insurance). I think this is an implausibly large behavioral response, but let's leave that aside for the moment and take it at face value.

How does this affect tax reform? Simple. When Kelly from South Carolina making between $10,000 and $20,000 buys Obamacare insurance, she receives a subsidy to help cover the cost. That subsidy is a "premium tax credit" – in English, negative taxes in the form of cash for health insurance. When she walks away from buying insurance, she walks away from the negative taxes. The JCT table shows this as a tax increase and the Democrats spent the day crowing about that.

But think about it. Kelly wouldn't quit buying insurance unless it made her better off – that doesn't sound like a tax increase. And she does not have to write a check to the Internal Revenue Service; if anything, she is pocketing the cash that would have gone to her share of the insurance premium and has more money – that doesn't sound like a tax increase. Moreover, if Obamacare had made the subsidies a spending program, repealing the tax penalty would simply be $200 in lower taxes for Kelly – that would look like a tax cut.

I understand the political appeal of pulling on peoples' heartstrings by appealing to the harm done to a less affluent person. But there just is no harm. More generally, it is always deceptive and a mistake to judge a comprehensive reform on the basis of any single provision. The question we must stay focused on in judging any tax proposal is how it will affect tax incentives, economic growth, pre-tax incomes, tax liabilities and overall welfare. The Senate bill cuts taxes for every income group, increases economic growth and will help keep jobs and American companies here at home – all while making America more competitive.