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Rangel Considers Capital Gains Tax for Health Plan (Update1)

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(Adds tax rates in eighth-ninth paragraphs).

By Ryan J. Donmoyer and James Rowley

Jan. 13 (Bloomberg) -- House Ways and Means Committee Chairman Charles Rangel said lawmakers are considering paying for health-care legislation by imposing a new tax on unearned income such as capital gains, a measure aimed at wealthier Americans.

The New York Democrat, whose panel writes tax law, said the idea of expanding the Medicare payroll tax to cover unearned income was preferable to a Senate proposal backed by President Barack Obama to tax the most-expensive health benefits, which labor leaders say will hurt many workers.

"There's a big problem in the way the administration wants to pay for this in terms of the tax on the higher premiums," Rangel told reporters last night before a meeting of House Democrats on Capitol Hill.

He said he would discuss how to pay for the legislation, which calls for the biggest overhaul of U.S. health care in more than four decades, during a meeting today with Obama at the White House.

Rangel said applying the Medicare tax to unearned income for the first time would be "comparable to the surtax" that House Democrats want to impose on the highest-income people and which has drawn opposition in the Senate. The House health-care bill calls for a 5.4 percent income surtax on singles who earn more than \$500,000 and couples who make more than \$1 million. An expanded Medicare tax "covers the same people," Rangel said.

White House Meeting

House and Senate Democratic leaders are trying to merge their versions of the legislation, which may cost \$1 trillion over 10 years. House Speaker Nancy Pelosi and Senate Democratic Leader Harry Reid are also meeting today at the White House with Obama to discuss the state of negotiations.

How to pay for the bill looms as the biggest stumbling block, and the payroll tax that funds the Medicare program for the elderly is one focus.

Negotiators have been talking about expanding the tax, which is currently 2.9 percent on salaries, split evenly between employers and workers. There's no cap on wages subject to the tax. The Senate adopted a proposal to add 0.9 percentage points to the individual portion of the tax for those who earn more than \$200,000 and married couples who earn more than \$250,000.

The new proposal would also apply the tax to unearned income, including capital gains, rents, royalties and dividends. That would add as much as 2.35 percentage points to tax rates on capital gains. Most people pay a 15 percent tax on long-term capital gains, and that percentage is already scheduled to increase to 20 percent next year.

Millionaire Tax

The House's so-called millionaire tax is also getting attention. While some Senate Democrats oppose the levy, Pelosi told reporters last night she hasn't given up on it because "it's the best pay-for we've had so far."

The proposal to impose an excise tax on the most-expensive employer-provided health benefits has drawn fire from Democratic-leaning labor unions, who say it would bring financial burdens to middle-class Americans, including workers who traded wage increases for greater health-care coverage.

Representative Eliot Engel of New York said one idea is to "move up the threshold" at which the tax starts so it would hit fewer people.

The Senate legislation calls for a 40 percent levy on health-insurance premiums that exceed \$8,500 for individuals or \$23,000 for families.

Nationwide Exchange

A Democratic leadership aide said Obama also favors a House plan to set up a nationwide exchange on which people could buy insurance at lower prices. And the president backs the repeal of the insurance industry's antitrust exemption, said the House aide, who spoke on condition of anonymity.

Dan Pfeiffer, Obama's communications director, said those were "at best educated guesses." Pfeiffer said in a statement that work on merging the House and

Senate bills is continuing and "there simply isn't anything final to discuss yet."

During his 2008 presidential campaign, Obama endorsed the concept of a nationwide insurance exchange. The Senate bill calls for each state to set up its own exchange, which House lawmakers say wouldn't be as effective.

"We feel very strongly about the national exchange," House Democratic Leader Steny Hoyer said.

Pelosi met yesterday with labor leaders, including AFL-CIO President Richard Trumka and Andrew Stern, president of the Service Employees International Union, to discuss unions' concerns about the proposed excise tax on the costliest health- benefit plans.

Backing the Speaker

Asked afterward if Pelosi had indicated how hard she would fight against the so-called Cadillac tax, Stern said labor "made very clear we appreciate everything the speaker has done."

On the antitrust issue, the House-passed legislation would repeal the limited exemption the insurance industry received when Congress passed the McCarran-Ferguson Act of 1945. The law shields insurance companies from federal antitrust laws as long as they are subject to state regulations.

Among those opposed to a repeal of the exemption is Nebraska Senator Ben Nelson, a Democrat who provided the 60th vote that cleared the way for the Senate's Dec. 24 passage of its health bill. Nelson, a former insurance company executive and state insurance regulator, says a repeal would hurt small insurers.

'No Earthly Reason'

House Rules Committee Chairman Louise Slaughter told reporters that Senate Judiciary Committee Chairman Patrick Leahy is negotiating with Nelson on the exemption to try to get his support.

"There is no earthly reason for the insurance companies to be exempt from the antitrust laws," she said.

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