

Invitation to sign petition on tax and health reform

March 21, 2005

Dear Colleague:

The United States does not have a properly functioning market for health care because tax policy hides from the majority of Americans the full cost of health insurance and health care consumption. The coming debate over tax reform and tax simplification presents an historic opportunity to reform the tax treatment of health insurance.

A diverse group of tax and health policy analysts has developed a petition to present a diagnosis of this problem and offer reform proposals, and we ask you to join us in signing it. This petition has been developed as a volunteer effort. We believe that the economic community can give the tax debate direction by weighing in on the need to address this important issue.

We would appreciate your reviewing the petition accompanying this letter. If you agree with it, we would be pleased if you would join us in signing it. We will use this petition to demonstrate the support in the business, academic, and public policy communities for addressing the inefficiencies in the health sector created by current tax law. We plan to publicize the petition in the national media along with the signatures we gather.

Please return the petition, with your signature, address, and affiliation, to the fax number or send an e-mail to the address listed on the petition. We want as many economists and health policy specialists as possible to participate in this effort. If you believe any of your colleagues would wish to sign it as well, please share the petition with them. Thank you for considering this important national policy issue. We look forward to receiving your reply at your earliest convenience.

Petition coordinators:

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Initial signatories:

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Joint Statement on Tax and Health Reform

The debate over tax reform provides an historic opportunity to address the tax treatment of health insurance. Many of the problems in our health sector are rooted in the tax code, and reforming the tax treatment of health insurance is essential to creating a more efficient and more equitable market for medical care and health insurance in the United States.

Section 106 of the Internal Revenue Code provides a generous, yet invisible, tax preference for health insurance that employees receive through the workplace. It allows that part of employee compensation received in the form of health insurance to be excluded from income and payroll taxes.

This is the single largest tax preference allowed by law, and it creates distortions throughout the health sector. It provides a huge incentive for employers rather than consumers to purchase health insurance and has resulted in a system that hides from workers the true cost of their health care consumption, artificially supporting increased demand for more expensive health insurance and medical services. Further, this tax law discriminates against those who don't get health insurance at work and contributes to growth in the ranks of the uninsured.

We support reforming this tax treatment of employment-based health insurance as part of revenue-neutral tax reform. We do not believe that any tax reform legislation should result in an aggregate tax increase for the American public.

Employers should continue to be allowed to deduct the cost of health insurance as a legitimate business expense, but employees should not receive tax exemption for an unlimited amount of health insurance.

Congress could begin by capping the amount of income that employees can shelter from taxes, allowing only a fixed dollar amount of health insurance to be tax exempt. A better approach would be to eliminate the employee tax exclusion for health insurance. If it is the policy of the government to encourage people to buy health insurance, it might better be done by means of allowances targeted directly to individuals to assist them in purchasing the health coverage of their choice.

Signature

Date

Please print name: _____

Title and Affiliation: _____

Address: _____

Phone: _____ Fax: _____ Email: _____

Please return to:

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