Congressional Budget Office
Cost Estimate

July 17, 2019

At a Glance

H.R. 748, Middle Class Health Benefits Tax Repeal Act of 2019

As posted on the House website docs.house.gov on July 15, 2019 (version HR748_SUS.XML)

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	-1,213	-3,585
Revenues	0	-40,177	-200,551
Net Increase in the Deficit	0	38,964	196,966
Spending Subject to Appropriation (Outlays)	0	0	0

Pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	**> $5 billion**	Contains intergovernmental mandate?	**No**
		Contains private-sector mandate?	**No**

The bill would

- Eliminate an excise tax, enacted in 2010 and scheduled to start in 2022, on employment-based health insurance with premiums that exceed certain statutory thresholds

Estimated budgetary effects would primarily stem from

- Foregone high-premium excise tax receipts
- Lower revenues from decreases in taxable compensation resulting from some employers and employees no longer shifting to lower-cost plans to avoid paying the tax

Areas of significant uncertainty include

- Predicting the extent to which the repeal of the excise tax would increase enrollment in higher-cost insurance plans

Detailed estimate begins on the next page.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Bill Summary

H.R. 748 would eliminate the excise tax on employment-based insurance plans with premiums that exceed thresholds established in statute. The tax was enacted in 2010 and was originally scheduled to take effect in 2018, but lawmakers delayed its implementation. It is currently scheduled to take effect beginning January 1, 2022.

Estimated Federal Cost

The estimated budgetary effect of H.R. 748 is shown in Table 1. The costs of the legislation fall within budget function 550 (health).

Table 1.
Estimated Budgetary Effects of H.R. 748

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
Decreases (-) in Direct Spending													
Estimated Budget Authority	0	0	0	-241	-473	-499	-537	-432	-376	-462	-566	-1,213	-3,585
Estimated Outlays	0	0	0	-241	-473	-499	-537	-432	-376	-462	-566	-1,213	-3,585
Decreases (-) in Revenues													
Estimated Revenues[a]	0	0	0	-6,810	-14,947	-18,421	-22,643	-26,024	-31,882	-36,431	-43,393	-40,177	-200,551
Net Increase in the Deficit													
Effect on the Deficit	0	0	0	6,568	14,474	17,922	22,105	25,592	31,506	35,970	42,828	38,964	196,966
On-budget	0	0	0	4,972	11,745	14,445	17,712	21,011	26,390	29,929	35,495	31,163	161,701
Off-budget	0	0	0	1,596	2,729	3,476	4,393	4,581	5,116	6,041	7,333	7,801	35,265

Components may not sum to totals because of rounding.
a. Includes on and off-budget effects. All off-budget effects would come from changes in Social Security revenues.

Basis of Estimate

For this estimate, CBO and JCT assume that legislation will be enacted near the end of fiscal year 2019. The agencies estimate that enacting the legislation would increase federal deficits by $197 billion over the 2020-2029 period. That projected increase consists of a $201 billion decrease in revenues, partially offset by a $4 billion decrease in outlays.

Current law requires providers of employment-based insurance to pay a federal excise tax beginning January 1, 2022, on high-cost employment-based coverage equal to 40 percent of the difference between the total value of the contributions by employers and employees toward that coverage and the thresholds established in statute. After 2022, those thresholds will be indexed to the growth of the chained consumer price index for all urban consumers. Because health insurance premiums will probably continue to rise faster than inflation, the excise tax will most likely affect a growing number of people over time. As a result, CBO and JCT expect that the excise tax will cause a growing number of employers and employees to shift to lower-cost plans to either avoid paying the tax or to reduce their taxable liability. H.R. 748 would eliminate the excise tax.

The estimated decrease in revenues results primarily from two components. First, CBO and JCT estimate that excise tax receipts would be $96 billion lower than under current law. Second, more people would remain in higher-cost insurance plans, rather than shifting to avoid paying the tax. As a result, CBO and JCT estimate that a larger share of total compensation would take the form of non-taxable health benefits, decreasing the share that takes the form of taxable wages and salaries and reducing revenues by $97 billion.

CBO and JCT estimate that revenues would further decrease by $8 billion over the 2020-2029 period as some employees who are not expected to enroll in insurance offered by their employer under current law would do so when the excise tax is eliminated and their cost of insurance declines. Additionally, a small number of employers who are expected to stop offering health insurance under current law (instead of offering insurance whose total value exceeds the specified thresholds for the excise tax) would no longer do so. Both of those small changes would further reduce the share of compensation taking the form of taxable wages and salaries.

CBO and JCT also estimate that outlays would decrease by $4 billion largely because individuals who over the 2020-2029 period would have received marketplace subsidies under current law would instead enroll in employment-based coverage.

Uncertainty

The response by employers to the elimination of the excise tax is uncertain. Employers' decisions about the generosity of coverage offered could differ from CBO and JCT's current estimates. Any such variation could change the total amount of premiums for employment-based coverage, which would ultimately change the mix of non-taxable health benefits and taxable wages and salaries.

For example, if employers respond to the tax's repeal by increasing the generosity of their coverage to a greater degree than the agencies expect—either by lowering their employee's cost-sharing, covering more benefits, increasing their contributions to their employees' premiums, or a combination of these changes—that would further increase the cost of the legislation by exempting a larger share of compensation from payroll and income taxes. This estimate is also sensitive to changes in the price of employment-based health insurance. For example, if premiums for such coverage grew slower than in CBO and JCT's baseline projections, all else being equal, more people would enroll in employment-based health insurance, but fewer plans would have premiums above the excise tax's threshold under current law.

Pay-As-You-Go Considerations

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in Table 2. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

Table 2.
CBO's Estimate of Pay-As-You-Go Effects of H.R. 748

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Net Increase in the On-Budget Deficit												
Statutory Pay-As-You-Go Effect	0	0	0	4,972	11,745	14,445	17,712	21,011	26,390	29,929	35,495	31,163	161,701
Memorandum:													
Changes in Outlays	0	0	0	-241	-473	-499	-537	-432	-376	-462	-566	-1,213	-3,585
Changes in Revenues	0	0	0	-5,213	-12,218	-14,945	-18,250	-21,443	-26,766	-30,391	-36,061	-32,376	-165,286

Increase in Long-Term Deficits

CBO estimates that enacting H.R. 748 would increase on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2030.

Mandates

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in Unfunded Mandates Reform Act.

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