The U.S. Senate and House of Representatives have now both passed a unified tax reform bill, and President Trump signed it into law on December 22. The final bill looks more like the Senate’s original version than the House’s. The legislation will affect health care in both direct and indirect ways. Looked at in whole, the bill appears to add some new pressures for health care industry participants.
**Individual Mandate.** The bill does away with the Affordable Care Act’s (ACA’s) penalty on individuals who do not purchase health insurance, effective January 2019. The Congressional Budget Office (CBO) has estimated that this change will save the federal government $338 billion over 10 years. By 2027, CBO projects that 13 million individuals, most of whom would have received federal subsidies to pay their premiums, would decline to take up coverage and thus become uninsured. Moreover, since the people most likely to elect not to purchase health insurance would be younger and healthier, this change could further destabilize the non-group market and possibly lead to higher premiums and fewer choices of plans and providers for those wanting to stay covered.

**PAYGO Ramifications.** Because the bill would grow the deficit significantly, the “pay as you go” law enacted in 2010 would force mandatory cuts to many programs, called sequestration. The CBO has projected that Medicare would immediately have to reduce spending by 4 percent yearly, taking $25 billion out of the health care system in the first year alone. Congress could waive sequestration cuts to Medicare, but doing so with the current makeup of the Senate would require at least eight Democrats to agree. Given the ongoing political battle in Washington, it is not certain that the waiver will pass.

**Pass-through Tax Deduction.** A companion to the bill’s centerpiece corporate tax rate reduction is a new deduction for certain pass-through businesses, among them some types of medical practices. Currently, “pass-throughs” do not pay tax on their income; the income “passes through” to the owners, who pay tax at individual rates. The bill allows a tax deduction for such owners equal to 20% of the taxpayer’s “qualified business income.” But there are multiple limitations. For medical professionals, the deduction would be disallowed for those with taxable income in excess of $207,500 if single, and $415,000 for joint filers. The benefits of this change might therefore accrue mainly to primary care physicians and such others as clinical psychologists whose incomes are at the lower end of the range of health care professionals’ pay.

**State Taxes.** The bill caps the deductibility of state and local income and property taxes at $10,000 per household per year. Consequently, states with higher taxes will feel intense pressure from their taxpayers to lower such taxes. As has been widely reported, these are mostly “blue” states. However, “red” states may not escape similar pain. Those states tend to be net positive recipients of federal tax dollars—that is, they receive more in federal outlays than their residents send to the federal government in taxes—so expected future cuts to federal spending will affect them, too. Whenever states feel budget pressure, they often curtail Medicaid payments and public health outlays. Health care providers that rely on Medicaid and other state funding, such as mental health and substance abuse providers and nursing facilities, will likely feel the brunt of such cuts.

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