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FEBRUARY 26, 2009

\$318 Billion Tax Hit Proposed

Upper-Income Americans Would See Deductions Cut on Charity and Mortgage Interest

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By LAURA MECKLER

WASHINGTON -- President Barack Obama on Thursday will propose \$634 billion in new taxes on upper-income Americans and cuts in government spending over the next decade to pay for his promised health-care expansion.

The tax increases and spending cuts will be included Thursday in Mr. Obama's comprehensive budget blueprint, and signal his ambition to overhaul the health-care system, one of the main planks of his presidential campaign.

The tax increases would raise an estimated \$318 billion over 10 years by reducing the value of such longstanding deductions as mortgage interest and charitable contributions for people in the highest tax brackets. Households paying income taxes at the 33% and 35% rates can currently claim deductions at those rates. Under the Obama proposal, they could deduct only 28% of the value of those payments.

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The changes would be phased in gradually over the next few years. For the 2009 tax year, the 33% tax bracket starts with couples with taxable earnings of \$208,850, when adjusted for personal exemptions and various

deductible expenses. A taxpayer in the top bracket paying \$1,000 of mortgage interest, for example, would see a tax break worth \$350 reduced to \$280.

During his presidential campaign, Mr. Obama promised not to raise taxes on families earning under \$250,000 a year, and the administration said that this plan would roughly line up with that limit.

The plan targets high-earning families in other ways. Wealthier Medicare beneficiaries would have to pay higher premiums to participate in the prescription-drug plan, much like they pay higher premiums to participate in Medicare's doctor plan.

Aiding the other end of the income scale, the president's budget plan would extend his tax cuts for the middle class and working poor with some of the billions of dollars raised by the sale of new carbon-emission permits for renewable energy projects. The "cap and trade" program to battle global warming would force companies to buy permits if they wish to emit heat-trapping pollutants, and they would be auctioned to businesses beginning in 2012.

The cuts in health-care spending would affect managed-care companies, prescription-drug manufacturers and hospitals, according to a senior administration official. Lobbyists representing these industries reacted mildly Wednesday, emphasizing their interest in seeing health-care reform succeed -- a sign of the momentum already built behind the effort. "We will be a constructive participant in efforts to reform all parts of Medicare," said Robert Zirkelbach, spokesman for America's Health Insurance Plans, a lobby group.

The administration acknowledges \$634 billion is not enough to pay the full cost of health-care reform that Mr. Obama and many congressional Democrats envision; the final price tag is estimated at more than \$1 trillion over 10 years. The

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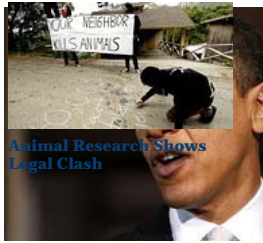
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 The budget will contain few details about how Mr. Obama wants to spend the money. He campaigned on a plan to set up a government-organized marketplace where people and businesses could buy coverage from private insurers and a new government-run health plan.

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The administration will release only general guidelines Thursday. Among them: Americans should have a choice of health plans and be allowed to keep their employer-sponsored plan if they wish to. It also says the plan should "put the United States on a clear path to cover all Americans." More details are expected next week at a White House summit on health care.

The budget blueprint focuses on where the money will come from to pay for it all -- half from savings to the health-care system and half from the tax increase.

One concern certain to get attention in Congress: whether a change to the deductions formula would discourage charitable giving among the wealthy, or further depress the housing market given that the interest deduction would fall for some.

The biggest chunk of savings in the budget proposal, estimated at \$177 billion over 10 years, would come from changing the pay structure for private managed-care plans that participate in Medicare. Under current law, payments for Medicare Advantage plans are set by a formula, and the result is that private companies are paid, on average, 14% more to care for a Medicare patient than the government would normally spend through the traditional Medicare plan.

The Obama plan would have private plans bid to offer coverage in geographic areas; they would be paid based on an average of the bids. The administration estimates the result would be lower average costs.

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That change would save \$8.4 billion over 10 years.

Many of the initiatives are also aimed at improving quality, by linking the payments to hospitals and doctors with the quality of care they provide.

The changes being proposed for hospitals would create one bundled Medicare payment to cover both a hospital stay and care for the patient for 30 days after release, a change estimated to save \$17 billion over 10 years. The administration is also proposing to cut payments for hospitals that routinely readmit patients after they have been discharged, a sign that the original care was substandard.

Mr. Obama's budget proposal signals he is serious about fulfilling his pledge to enact comprehensive health-care legislation this year, a promise he repeated Tuesday during his address to Congress.

It is also a sign he plans to turn aggressively to the ambitious domestic policy agenda he laid out during the presidential campaign -- an agenda curtailed during his first weeks in office by the financial crisis.

Mr. Obama and his aides

spent Wednesday putting the finishing touches on the budget blueprint, kicking off the process of rewriting the rules for financial regulation and initiating so-called stress tests to gauge the viability of the country's tottering banks.

The budget plan will go through a rigorous congressional review before it becomes law. But, particularly in the first year of a presidency, the budget document is significant as a broad statement about the new administration's agenda. The budget document will also include an energy plan aimed at controlling carbon emissions, new funding for preschool and higher education, as well as an outline for narrowing a federal deficit that now tops \$1 trillion.

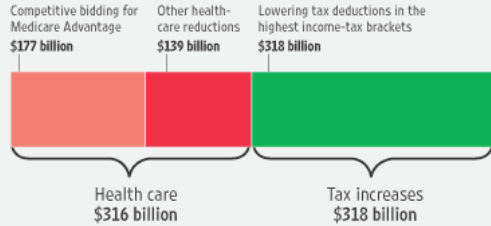
Mr. Obama's 10-year blueprint is also expected to contain a large number of tax increases, in addition to the one proposed to cover health care. It will mark a sharp shift from the budgets proposed by President George W. Bush, with sharply reduced tax rates across the board. Mr.

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Budget Salve

The Obama administration plans to create a health-care reserve fund totaling \$634 billion over ten years to pay for expanding coverage

Savings from ...



Source: The White House

Obama will propose letting Mr. Bush's tax cuts on upper-income families expire in 2011, and will propose blocking the estate tax from disappearing as scheduled under current law. He'll also propose a number of taxes on companies, one aimed at blocking companies from moving jobs overseas and others that the administration will portray as "closing loopholes."

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