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OPTIONS FOR INCREASING MEDICARE REVENUES

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ABSTRACT

Medicare faces serious short-term and long-term financial pressures. Given that cost containment measures need to be implemented gradually, it seems likely that Congress will have to address at least some of the Medicare's financial shortfall with additional tax revenues. This report examines the revenue and distributional effects of options to increase revenues for Medicare and discusses their relative pros and cons. We use the Tax Policy Center microsimulation model to estimate the effect of each option on revenues over ten years and on the distribution of after-tax income in one year. We analyze 12 options including increasing Medicare tax rates, increasing individual income tax rates, broadening the tax base, increasing corporate income tax rates, and enacting a value-added tax.

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INTRODUCTION

The Medicare program, which provides health insurance coverage to 66 million elderly and disabled Americans, faces serious short-term and long-term financial pressures.[1] In the near-term, Medicare's Hospital Insurance (HI) trust fund, which pays for hospital and most institutional services, is expected to be depleted sometime around 2028. Were this to occur, in the absence of legislative action, Medicare would not be able to make full and timely payments to HI health care providers. Longer-term, total spending on Medicare (including the component that pays for physician services and drugs) is projected to grow faster than national income, putting great pressure on the federal budget.

Given the immediate and visible adverse effects that HI trust fund insolvency would cause, some type of congressional action seems inevitable. Tackling HI insolvency—and more broadly, Medicare's impact on the federal budget—requires a slowdown in the rate of growth in Medicare spending, increased funding, or a combination of the two. Given that cost containment measures need to be implemented gradually, it seems likely that Congress will have to address at least some of Medicare's financial shortfall with additional tax revenues. An expert panel on Medicare solvency convened in 2020 generally agreed that increased revenue would be needed, but there was no consensus on how to do it (Garrett, Shartzer, and Arnos 2021).

This report examines the revenue and distributional effects of 12 options to increase revenues for Medicare and discusses their relative pros and cons. We use the Tax Policy Center microsimulation model to estimate the effect of each option on federal revenues over 10 years and on the distribution of after-tax income in one year. (See the appendix for information on the Tax Policy Center microsimulation model).

BACKGROUND

Medicare's Current Financing Structure

Medicare has two components that are financed in different ways. The first component, Hospital Insurance (HI), helps pay for hospital and most institutional services. The HI trust fund is funded, in part, with receipts from a payroll tax (HI tax) imposed on workers' earnings. The HI trust fund also receives a dedicated portion of income tax on Social Security cash benefits. When the inflows of payroll taxes and other receipts, along with accumulated surpluses, are insufficient to cover HI costs, the law requires that payments to providers somehow be reduced to the level of incoming receipts.

The HI tax is levied on earnings at a rate of 2.9 percent, split evenly between employers and employees. The self-employed pay both portions of the tax. Unlike the Social Security payroll tax, there is no upper limit to the earnings subject to the HI tax. Since 2013, single households earning more than $200,000 and married households earning more than $250,000 have paid the Additional Medicare Tax, an additional 0.9 percent HI tax on earnings over those thresholds.[2]

The net investment income tax (NIIT), enacted by the Affordable Care Act (ACA), is a 3.8 percent tax on interest, dividends, capital gains, rents, royalties, and passive business income[3] of taxpayers with incomes exceeding $200,000 for single filers and $250,000 for married filers. Although intended to fund Medicare, due to procedural issues related to the congressional reconciliation process, the ACA did not dedicate NIIT revenue toward the HI trust fund (Van de Water 2020).

The second component of Medicare, Supplementary Medical Insurance (SMI), helps pay for physicians' outpatient services and prescription drugs. SMI is financed by beneficiary premiums and federal general revenues, which are deposited into the SMI trust fund. Unlike the HI trust fund, when the balances in the SMI trust fund run low, they are automatically replenished with general revenues, and beneficiary premiums are increased.

Financial Pressures

Due to increasing costs per enrollee and the aging of the population, Medicare faces substantial financial pressures. Total spending on Medicare has risen historically and continues to grow as a share of gross domestic product (GDP), resulting in ever greater pressure on the federal budget. Total Medicare spending increased from just above 2 percent of GDP in 2000 to about 4 percent in 2020 and is projected to reach 6 percent of GDP by 2040 (Medicare Trustee 2022, Steuerle and Garrett 2022 3). For perspective, 2 percentage points of GDP is about $500 billion in today's dollars.

In addition, according to the trustees of the HI trust fund, its reserves may be exhausted sometime before 2029 (Medicare Trustees 2022). At that point of exhaustion, only 90 percent of scheduled HI benefits could be paid.

Although measures implementing cost containment might eventually bring the HI system into balance and slow growth in overall Medicare spending, Congress typically implements such policies gradually. And funding the entire HI shortfall or projected increase in Medicare spending solely through additional borrowing seems unlikely given current budget deficits and the scale of the shortfall. Accordingly, some additional tax revenues for Medicare are likely needed. The total financing gap (projected spending in excess of projected revenues) for HI over the next 10 years (from 2022 to 2031) is $390 billion (Medicare Trustees 2022, 27).[4] The HI trust fund balance of over $170 billion (estimated at the end of 2022) will be spent down to fill a portion of that gap, but the trust fund is projected to be exhausted in 2028.

REVENUE OPTIONS

We provide revenue estimates over ten years for 12 revenue raising options (table 1). These options can be put into four broad categories:

- Increases in dedicated Medicare payroll taxes already in place
- Higher individual income tax rates
- Expansion of the tax base for individual income and/or payroll taxes
- Other proposals

TABLE 1

Revenue Effects of Options to Increase Medicare Revenues

Fiscal years 2022–31[a, b]

	Billions of dollars
Medicare tax rates	
(1) Increase combined Medicare tax rate by 1 percentage point	1,024
(2) Increase combined Medicare tax rate by 1 percentage point on earnings above $200,000 ($250,000 for married households)	221
(3) Increase combined Medicare tax rate by 1 percentage point on earnings above $400,000 ($500,000 for married households)	117
Individual income tax rates	
(4) Increase individual income tax rates by 1 percentage point	977
(5) Increase individual income tax rates by 1 percentage point on ordinary income only	945
(6) Increase individual income tax rates by 1 percentage point for taxpayers in higher tax brackets[c]	444
Broadening tax base	
(7) Limit income and payroll tax exclusion for employer-provided health benefits at 75th percentile of premiums	376
(8) Repeal HI tax exclusion for employer-provided health benefits	414
(9) Expand NIIT base to include income of certain business owners not subject to Medicare taxes for incomes over $400,000 ($500,000 for married households)	238
(10) Expand NIIT base to include income of certain business owners not subject to Medicare taxes for incomes over $200,000 ($250,000 for married households)	260
Other taxes	
(11) Increase corporate income tax rates by 1 percentage point	87
(12) Enact one percent broad-based value-added tax with rebate[d]	997

Source: Tax Policy Center Microsimulation Model (version 0721-2).
(a) Baseline is the law currently in place before passage of the Inflation Reduction Act of 2022. Policies assumed effective 1/1/2022.
(b) For options 1-6 and 11-12, rates could be scaled lower or higher to achieve desired revenue goals.
(c) Increase tax rates by one percentage point for taxpayers in the third tax bracket and higher.
(d) Revenue estimate includes the reduction in federal income and payroll taxes due to the VAT reducing factor incomes but does not include the impact of the VAT on federal outlays or state and local government budgets.

Under current law, any revenue gain from changes to existing Medicare taxes would go directly to the HI trust fund. General revenue gains from the other options, however, could be dedicated to the HI trust fund, used to help finance rising SMI costs, or used within a broader reform in which the financing of HI and SMI is no longer separated.

Medicare Tax Rates

Currently, the 1.45 percent HI tax on both employers and employees and the 0.9 percent Additional Medicare Tax on high-wage workers result in a combined Medicare tax rate of 2.9 percent on earnings below $200,000 for single households ($250,000 for married households) and 3.8 percent on earnings above those levels.[5]

1. Increase combined employer and employee regular Medicare payroll tax rate by 1 percentage point

This option would increase both the employer and employee HI tax rate by 0.5 percentage point, resulting in a combined Medicare rate of 3.9 percent below $200,000 ($250,000) of earnings and a rate of 4.8 percent at higher earnings levels.[6] The option would increase federal revenues over the next 10 years by more than $1 trillion. This amount would be more than sufficient to fill the 10-year HI financing gap of $390 billion, though not enough to cover the projected long-term growth in Medicare's overall costs. Alternatively, increasing the regular Medicare payroll tax by just enough to fill the 10-year HI financing gap would require increasing the payroll tax rate by approximately 0.4 percentage point.

2. Increase combined Medicare payroll tax rate by 1 percentage point on earnings above $200,000 ($250,000)

This option would increase the Additional Medicare Tax rate by 1 percentage point, which would result in the current Medicare tax rate of 2.9 percent on earnings below $200,000 for single households and $250,000 for married households and a rate of 4.8 percent at higher earnings levels. The option would increase revenues over the next 10 years by more than $220 billion.

3. Increase the combined Medicare tax rate by 1 percentage point on earnings above $400,000 ($500,000)

This policy is similar to option 2 but would limit the increase in the Additional Medicare Tax rate to earnings above $400,000 for single households and $500,000 for married households. The combined Medicare tax rate would then have three tiers: 2.9 percent on initial earnings, 3.8 percent from $200,000 to $400,000 ($250,000 to $500,000), and 4.8 percent for earnings above $400,000 ($500,000). The option would increase revenues over the next 10 years by more than $115 billion.

Individual Income Tax Rates

The federal individual income tax applies taxes on income in excess of the standard deduction or allowable itemized deductions. There are seven tax brackets with rates increasing from 10 to 37 percent as taxable

income exceeds various thresholds.[7] A separate schedule of tax rates applies to capital gains and dividends with rates increasing from 0 to 20 percent as taxable income increases.[8]

4. Increase individual income tax rates by 1 percentage point

This option increases rates for all tax brackets for ordinary income and capital gains and dividends by 1 percentage point. The option would increase revenues over the next 10 years by nearly $980 billion.

5. Increase individual income tax rates by 1 percentage point on ordinary income only

This is the same as option 4 but would only raise rates on ordinary income, and not the separate rate schedule that applies to capital gains and dividends. In recent history, most proposals to change income tax rates have left the long-term rate on gains unchanged. The option would increase revenues over the next 10 years by more than $940 billion.[9]

6. Increase individual income tax rates by 1 percentage point for taxpayers in higher tax brackets

This option would increase tax rates by 1 percentage point in each of the tax brackets beyond the first two brackets. For those taking the standard deduction, this means rate increases would start between $54,000 and $55,000 of income for single filers and between $109,000 and $110,000 for joint filers in 2022.[10] About 20 percent of single tax filing units and 40 percent of joint tax filing units are projected to be in the third tax bracket or higher in 2022.[11] The option would increase revenues over the next 10 years by more than $440 billion.

Broadening the Tax Base

These options would increase revenues by extending income and/or payroll taxes to currently excluded income.

LIMITING THE TAX EXCLUSION FOR EMPLOYER-PROVIDED HEALTH BENEFITS

Employer-paid premiums for health insurance are exempt in unlimited amounts from federal income and payroll taxes despite being a form of compensation. The portion of premiums that employees pay is typically excluded from taxable income and wages as well. The tax exclusion for health benefits is very expensive, costing the federal government about $300 billion a year in revenues that would otherwise be collected. Because the exclusion reduces taxable income, it is worth more to taxpayers in higher income tax brackets than to those in lower income tax brackets. And while the exclusion encourages employers to offer coverage, it may also contribute to higher health care costs. Because the exclusion effectively subsidizes additional spending on health insurance, employers may choose to offer employees health plans that cover more services, are less tightly managed, or have lower cost sharing than they would otherwise.[12]

7. Limit income and payroll tax exclusion for employer-provided health benefits at 75th percentile of premiums

This option would establish a limit to the exclusion at the 75th percentile of health insurance premiums for single and family coverage. Health benefits in excess of the thresholds would be subject to individual income, Social Security, and Medicare taxes.[13] The option would increase federal revenues over the next 10 years by nearly $380 billion. The option is similar to the excise tax on high-cost health plans (the "Cadillac" tax) enacted by the ACA that was delayed and ultimately repealed before implementation. The Cadillac tax would have been levied on insurers and would have applied a 40 percent rate on premiums in excess of thresholds that initially would have been higher than the ones used in this option.[14] But unlike this policy, the Cadillac tax thresholds would have been indexed only by consumer price inflation rather than growth in health insurance premiums. Because health premiums grow considerably faster than general price inflation, the share of plans subject to the Cadillac tax would have grown substantially over time.

8. Repeal HI tax exclusion for employer-provided health benefits

This option would classify employer contributions for health benefits as earnings for computation of HI and Additional Medicare taxes, but continue to exempt the contributions from income and Social Security taxes. By taxing all health benefits, it avoids some complications of taxing benefits in excess of thresholds.[15] Because health benefits would be subject to Medicare taxes, the revenue would be credited automatically to the HI trust fund. The option would increase revenues over the next 10 years by more than $410 billion.

EXTEND 3.8 PERCENT TAX TO MORE HIGH-INCOME FAMILIES

In general, high-income workers, business owners, and investors pay a 3.8 percent tax on their income above certain thresholds. Workers pay a combined Medicare tax rate (HI tax and Additional Medicare Tax) of 3.8 percent on earnings above $200,000 if single and $250,000 if married. Many business owners pay the same 3.8 percent Medicare tax through self-employment taxes. Investors and some passive business owners pay the 3.8 percent NIIT on income above the same thresholds. However, portions of income for some active business owners do not count as wages, self-employment income, or passive investment income and so are not subject to Medicare taxes or the NIIT.[16]

9. Expand the NIIT base to include income of certain business owners not currently subject to Medicare taxes or the NIIT for incomes over $400,000 ($500,000)

This option would extend the NIIT to income that is not currently subject to Medicare taxes or the NIIT for certain business owners. The option would only extend the NIIT for taxpayers with incomes above $400,000 for single filers and $500,000 for married filers, as was proposed in President Biden's Build Back Better legislation (JCT 2021, 81). The option would increase revenues over the next 10 years by almost $240 billion.

A similar approach would extend self-employment taxes and, therefore, Medicare taxes to the same excluded income.[17] The revenue and distributional impacts of the approaches would be similar, but to the extent self-employment taxes are expanded, HI revenues would automatically be credited to the trust fund. Additionally, extending self-employment taxes also potentially applies Social Security taxes to the excluded income.[18]

10. Expand the NIIT base to include income of certain business owners not currently subject to Medicare taxes or the NIIT for incomes over $200,000 ($250,000)

This option is similar to option 9 but would use the same lower income thresholds as the existing Additional Medicare Tax and NIIT. This policy would unify the taxation of income across different business ownership/organization structures. The option would increase revenues over the next 10 years by $260 billion.

Other Taxes

CORPORATE INCOME TAXES

Most large US businesses are subject to the corporate income tax. Profits from those corporations can also be subject to a second layer of taxation at the individual shareholder level, both on dividend payments and on capital gains from the sale of shares. Other businesses are taxed as "pass-through" entities, meaning profits are allocated to the owners who pay individual income tax on that income. The Tax Cuts and Jobs Act of 2017 reduced the top corporate income tax rate from 35 to 21 percent.

11. Increase corporate income tax rates by 1 percentage point

This option would increase the corporate income tax rate to 22 percent. The option would increase federal revenues over the next 10 years by nearly $90 billion.

CONSUMPTION TAXES

A value-added tax (VAT) is a broad-based tax on consumption, similar to retail sales taxes imposed by most US states and some localities. But, unlike sales taxes, which are collected at the retail level, a VAT is incrementally collected at each stage of the production and distribution of goods and services. That is, when firm A provides inputs to firm B, which provides a final set of inputs to firm C, which then sells a good for final consumption, each firm pays tax on the increase in value of goods sold relative to the cost of inputs used in production. The process helps improve compliance: each firm (in the example, firms B and C), can take credit for taxes paid on value added at the previous stage, so each firm has an incentive to ensure that its input providers have accurately paid the taxes they owed. Unlike income taxes, VATs effectively tax income only when spent and therefore they do not provide a disincentive to save. But VATs, in general, are less progressive than income taxes. VATs are an important revenue source for the national governments of nearly every country in the world, except the United States.[19]

12. Enact a 1 percent broad-based value-added tax with rebate

The option would enact a 1 percent VAT covering all household consumption. To address progressivity concerns, the option would rebate the VAT burden by providing a refundable income tax credit that increases with income up to the federal poverty line. The credit would generally offset the full burden of the VAT for single households with incomes below the single-person poverty threshold, $13,790, and for married households with incomes below twice that amount, $27,580.[20] The option would increase revenues over the next 10 years by nearly $1 trillion.[21] Keep in mind that VAT administrative costs for both firms and the tax collecting agency are sufficiently high that a higher tax rate is usually applied upon enactment to help offset those costs.

Summary of Revenue Impacts

Figure 1 shows the 10-year revenue impacts of the options considered here ranked by size of increase. The revenue estimates range from $90 billion to $1 trillion. The broad-based options that increase taxes on most households increase revenues the most because they apply to a relatively large pool of income. Increasing the HI tax rate (option 1), broadly increasing income tax rates (options 4 and 5), and enacting a VAT (option 12), all increase revenues over 10 years by about $1 trillion. We modeled 1 percentage point increases in each of these taxes, but the rates could of course be scaled lower or higher to achieve desired revenue goals.

The options that raise taxes only on high-income households or corporations raise substantially less revenue because they apply to a smaller proportion of overall income. Revenue estimates for increasing the combined Medicare tax rate at high earnings levels (options 2 and 3), expanding the NIIT base at higher income levels (options 9 and 10), and increasing the corporate income tax rate (option 11) range from $90 to $260 billion over 10 years.

NOTES

[1] See Steuerle and Garrett (2022), for further discussion of Medicare's financing challenges.

[2] There is no employer portion of the Additional Medicare Tax.

[3] Income from a business in which a person does not actively participate.

[4] In recent past years, actual Medicare spending has grown at rates lower than CMS actuarial projections. See, for example, Holahan and McMorrow (2015).

[5] The Tax Policy Center assumes workers bear the full burden of employer payroll taxes. We use "households" to refer to tax units that are people filing income taxes on the same return or people who would file together if they were to file.

[6] The thresholds for the Additional Medicare Tax are not indexed for inflation under current law or these options. All the options raising Medicare tax rates apply to the self-employed as well as workers.

[7] Current law individual income tax rates are 0.10, 0.12, 0.22, 0.24, 0.32, 0.35, and 0.37.

[8] Only long-term capital gains and qualified dividends are taxed under the alternative schedule. Short-term gains and nonqualified dividends are taxed as ordinary income.

[9] Excluding capital gains only modestly affects the revenue gain because we follow the Joint Committee on Taxation's assumption that capital gains realizations are highly sensitive to tax rates. Our model would only estimate a large impact on revenue from raising the gains rate if it were combined with other structural changes such as ending step-up basis for inherited assets.

[10] In 2022, the third tax bracket (0.22) starts at $83,550 of taxable income for joint filers and $41,775 for single filers. The standard deduction is $25,900 for joint filers and $12,950 for single filers.

[11] Tax filing units include tax filers and individuals and families not filing tax returns.

[12] For a further discussion of how the tax exclusion for health benefits subsidizes health insurance coverage and its distributional impacts, see Mermin and others (2020).

[13] Tax-excluded health benefits limited by the option include premiums for employer-sponsored health insurance and contributions to Health Savings Accounts, Health Reimbursement Arrangements, and Medical Flexible Spending Accounts. The thresholds would grow over time at the same rate as health insurance premiums.

[14] The Cadillac tax would have been applied to health plans with premiums in excess of $11,200 for single coverage and $30,100 for family coverage in 2022. Based on Congressional Budget Office projections of the 75th percentile of employer-provided health benefits in 2024, we estimate the 75th percentile is $9,900 for single coverage and $24,400 for family coverage in 2022. See CBO (2022, 32). Although the Cadillac tax would have been levied on insurers, the burden would ultimately fall on workers with employer-sponsored insurance and distributional impacts would likely be very similar to limiting the health exclusion. See Blumberg, Holahan, and Mermin (2015). Shortly before Congress repealed the Cadillac tax, the Joint Committee on Taxation estimated that repealing the tax would reduce revenues by $200 billion between 2022 and 2029. See JCT (2019).

[15] If policies limiting the health exclusion above thresholds aim to tax generous health plans as opposed to plans that are high cost simply because they have high-cost enrollees, the IRS would need to apply actuarial adjustment factors to the thresholds. Taxing all health benefits avoids this complication.

[16] For example, owners of S corporations that materially participate in the operation of the business do not pay self-employment taxes or the NIIT on profits. S corporations are corporations, with 100 or fewer shareholders, that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. S corporations are required to pay reasonable compensation in the form of wages for any services provided by owners. While passive owners of S corporations are subject to the NIIT, active owners pay Medicare taxes on their wages but do not pay self-employment taxes or the NIIT on profits. This treatment gives active owners a strong incentive to pay themselves lower wages and receive higher profits. See Hemel, Holtzblatt, and Rosenthal (2022).

NOTES

[17] See option 22 in CBO (2018), for a proposal to tax this income through expanding self-employment taxes and see US Department of Treasury (2021, 65), for a proposal to tax the excluded income partly by extending self-employment taxes and partly by extending the NIIT.

[18] The impact on Social Security revenues would be modest as most affected business owners have earnings in excess of the maximum taxable earnings for Social Security. An additional difference between the approaches is that expanding self-employment taxes would allow affected business owners to deduct a portion of the additional tax on their individual income tax returns.

[19] For further discussion of VATs, see Toder, Nunns, and Rosenberg (2012).

[20] The Tax Policy Center assumes consumption taxes lower real incomes in proportion to each tax unit's share of labor income and super normal returns—the portion of capital income that exceeds the normal rate of return. The option provides a refundable income tax credit that offsets burden on labor income up to thresholds tied to the federal poverty line. Tax units with incomes below the thresholds will still bear some VAT burden to the extent they have super normal returns, for example, if they own stock mutual funds in a retirement account. All tax units with labor incomes above the thresholds receive the maximum rebate, which offsets a smaller share of VAT burden as income increases.

[21] The revenue estimate includes the reduction in federal income and payroll taxes due to the VAT reducing factor incomes but does not include the impact of the VAT on federal outlays or state and local government budgets. For a discussion of how the Tax Policy Center distributes consumption taxes, see Toder, Nunns, and Rosenberg (2011).

[22] The options rank somewhat differently by average tax change in 2022 than by change in revenues over 10 years. In particular, the general increase in income taxes (option 4) results in the largest average tax in table 2 but not the largest 10-year revenue increase in figure 1. The annual revenue gain from increasing income tax rates declines when many provisions in the Tax Cuts and Jobs Act expire in 2026, lowering 10-year revenue estimates relative to the other options that grow steadily over time. In addition, the average tax change in Tax Policy Center distributional estimates differs conceptually from revenue estimates. Unlike revenue estimates, distributional estimates exclude the impact of microdynamics, such as increased sheltering of income or reduced capital gains realizations in response to higher tax rates. Also, whereas revenue estimates measure actual cash flows in a given year, distributional estimates book tax increases on contributions to tax-deferred retirement contributions in the year income is earned, as opposed to when the taxes are paid on withdrawal. Both of these conceptual differences increase the size of distributional estimates relative to revenue estimates for the options to increase income tax rates.

[23] For a discussion of how the Tax Policy Center measures the distributional impacts of tax policies, see "Measuring the Distribution of Tax Changes," Urban-Brookings Tax Policy Center, https://www.taxpolicycenter.org/resources/measuring-distribution-tax-changes.

[24] Raising the corporate income tax rate affects some tax units at all income levels; but for a 1 percentage point increase, the percent change in after-tax income for the first four income quintiles rounds to zero.

[25] The Tax Policy Center distributes VAT burden using the "sources" method, meaning VAT burden is distributed by share of labor income and super normal returns as opposed to the "uses" method, which would distribute by share of consumption. Still, tax units that consume less of their income will have more capital income and therefore a greater share of their income will consist of normal returns that are not burdened by the VAT.

[26] It is less useful for assessing the progressivity of a single proposal because much of the difference in shares across income group simply reflects the distribution of income.

[27] While tax rates have limited impact on labor supply, research suggests that taxpayers, particularly at higher income levels, are able to reduce taxable incomes in response to higher tax rates. Ways to shelter income include increased spending on tax deductible expenses (for example, larger mortgages), and shifting compensation to untaxed forms, such as employer-provided benefits. Based on the literature, the Tax Policy Center tax model assumes the elasticity of taxable income with respect to the net of tax rate rises with income and equals 0.25 for those in the top 1/10th of 1 percent of the income distribution. For a summary of the literature on the impact of tax rates on taxable income, see Saez, Slemrod, and Giertz (2012).

NOTES

[28] See endnote 14.

[29] Extending the 3.8 percent tax would reduce incentives for businesses to organize as S corporations and limited partnerships. It also would reduce incentives for active S corporation owners to classify their income as profits as opposed to wages. See Congressional Budget Office (2018, 223).

[30] See Matheson and others (2022), for a review of studies examining the impact of corporate rate reductions from the Tax Cuts and Jobs Act of 2017 on domestic investment spending.

[31] On the other hand, creating a new dedicated revenue source adds to the complexity of an already confusing system. See Steuerle and Garett (2022), for a discussion of the relative merits of addressing Medicare's financial challenges through dedicated revenues or general revenues.

[32] "Value-added tax (VAT) rates," PwC, accessed December 22, 2022, https://taxsummaries.pwc.com/quick-charts/value-added-tax-vat-rates.

[33] For more information on the tax model. See "Brief Description of the Tax Model," Urban-Brookings Tax Policy Center, https://www.taxpolicycenter.org/resources/brief-description-tax-model.

[34] For a detailed description of HIPSM, see Buettgens and Banthin (2020).

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