

Tax Cuts Could Threaten Physicians

Today (December 13) members of the House and Senate will meet to reconcile differences between their two tax reform proposals. Congress is expected to complete work on the bill before the Christmas recess. Although many are overjoyed by a tax cut, there are potential pitfalls to the tax cut that might adversely affect physicians.

Under a rule in the Senate known as Pay as You Go (PAYGO), legislation that increases the deficit results in automatic spending cuts. The Congressional Budget Office (CBO) estimates that tax cuts could lead to automatic cuts of \$136 billion in fiscal 2018, \$25 billion of which would come from Medicare. PAYGO cuts would reduce Medicare payments to physicians by 4% in 2018 according to the American College of Physicians (ACP) (1). PAYGO would also lead to cuts to graduate medical education, lab fees, and hospital payments and would cut or entirely eliminate hundreds of other federal programs, including programs within the Centers for Disease Control and Prevention, the Health Resources and Services Administration, and the Prevention and Public Health Fund, according to the ACP.

Senate Republicans want to essentially repeal the penalty that accompanies the mandate that all Americans buy health insurance. It seems likely that House Republicans will go along. The CBO estimates that this would decrease the number of people with health insurance by 4 million by 2019 and premiums in the nongroup market by about 10% in almost each year for the next 10 years. The American Association of Retired Persons (AARP) says that 64-year-olds could see their premiums increase by an average of \$1490 a year (2).

The medical expense tax deduction has been targeted for elimination by the House. The Senate version, however, would keep the deduction. The AARP says that in 2015, 8.8 million Americans used the deduction and that more than half were older than 65 (2). Nearly three quarters are 50 years old or older and live with a chronic condition or illness, and 70% of those who claimed the medical expense deduction have income below \$75,000, according to the AARP. However, the tax deduction seems likely to survive. Rep. Kevin Brady (R-TX) who heads the reconciliation said he's willing to consider scrapping the proposal to eliminate the deduction (3).

The House is proposing to eliminate a tax credit that has been used as an incentive for pharmaceutical companies to develop therapies for orphan diseases. The Senate is reducing that credit. Not surprisingly, the National Organization for Rare Disorders and 160 other organizations representing patients with rare conditions oppose any reduction (4). They argue that eliminating the tax cut would de incentivize pharmaceutical companies to develop therapies for orphan diseases where the market is usually small.

Hospitals are alarmed about the House proposal to eliminate tax-exempt private activity bonds used by nonprofit hospitals and academic medical centers. The Senate bill would continue to allow that tax-exempt financing. This is opposed by both the Association of American Medical Colleges and the American Hospital Association (5,6). The AHA's Thomas P. Nickels states, "The ability to obtain tax-exempt financing is a key benefit of hospital tax-exemption that works to make access to vital hospital services available in communities large and small across America." (6). Locally several medical centers have large bonds and loss of the exemption might have significant consequences.

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References

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