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To Pay for Health Care, Obama Looks to Taxes on Affluent

By [JACKIE CALMES](#) and [ROBERT PEAR](#)

WASHINGTON — [President Obama](#) will propose further tax increases on the affluent to help pay for his promise to make health care more accessible and affordable, calling for stricter limits on the benefits of itemized deductions taken by the wealthiest households, administration officials said Wednesday.

The tax proposal, coming after recent years in which wealth has become more concentrated at the top of the income scale, introduces a politically volatile edge to the Congressional debate over Mr. Obama's domestic priorities.

The president will also propose, in the 10-year budget he is to release Thursday, to use revenues from the centerpiece of his environmental policy — a plan under which companies must buy permits to exceed pollution emission caps — to pay for an extension of a two-year tax credit that benefits low-wage and middle-income people.

The combined effect of the two revenue-raising proposals, on top of Mr. Obama's existing plan to roll back the Bush-era income tax reductions on households with income exceeding \$250,000 a year, would be a pronounced move to redistribute wealth by reimposing a larger share of the tax burden on corporations and the most affluent taxpayers.

Administration officials said Mr. Obama would propose to reduce the value of itemized tax deductions for everyone in the top income tax bracket, 35 percent, and many of those in the 33 percent bracket — roughly speaking, starting at \$250,000 in annual income for a married couple.

Under existing law, the tax benefit of itemizing deductions rises with a taxpayer's marginal tax bracket (the bracket that applies to the last dollar of income). For example, \$10,000 in itemized deductions reduces tax liability by \$3,500 for someone in the 35 percent bracket.

Mr. Obama would allow a saving of only \$2,800 — as if the person were in the 28 percent bracket.

The White House says it is unfair for high-income people to get a bigger tax break than middle-income people for claiming the same deductions or making the same charitable contributions.

The officials said the resulting increase in revenues, estimated at \$318 billion over 10 years, would account for about half of a \$634 billion "reserve fund" that Mr. Obama will set aside in his budget to address changes in the health care system. The other half would come from proposed cost savings in [Medicare](#), [Medicaid](#) and other health programs.

In a document summarizing its proposals, the White House said it would finance coverage for the uninsured in part by “rebalancing the tax code so that the wealthiest pay more.”

Mr. Obama’s blueprint, which will project spending and revenues for the next decade, will flesh out the president’s thinking on his energy plans both to cap the emissions of gases, particularly carbon dioxide, that are blamed for [climate change](#) and to spur development of nonpolluting energy alternatives.

The budget will show the government beginning by 2012 to collect billions of dollars in revenues from selling permits to businesses that emit the polluting gases, assuming the president’s energy initiative becomes law as soon as this year, officials said.

Because utilities and other businesses would presumably pass on their costs to customers, Mr. Obama will propose to use most of the government’s revenues from the permits to finance an extension of the new “Making Work Pay” tax credit beyond the two years covered in the \$787 billion economic recovery plan that was just enacted.

That tax relief, the administration will argue, will offset households’ higher costs for utilities and other products and services from businesses’ passing on their permit expenses.

That tax credit annually will provide \$400 to low-wage and middle-income workers or \$800 to couples; Mr. Obama would like to increase those figures to \$500 and \$1,000. The credit phases out for those with incomes above \$75,000 a year and for couples with incomes of more than \$150,000; no benefit would go to individuals with more than \$100,000 income and couples with \$200,000.

The tax credit will begin showing up in the form of lower withholding for eligible workers beginning April 1.

The remainder of the projected revenues from the permits will finance Mr. Obama’s campaign promise for \$15 billion a year over 10 years to subsidize research and development of alternative energy sources, officials said. The [stimulus package](#) included a multibillion-dollar down payment to develop a national electricity grid to harness and distribute energy from such sources, including [wind farms](#).

Behind the numbers in Mr. Obama’s first budget is one of the most far-reaching domestic agendas in years, and at a time when the president and Congress are already grappling with an economic crisis worse than any in decades. The environmental permits would not take effect until 2012, at which point the administration expects the economy to have recovered. Similarly, some of the tax increases would not take effect until 2011.

Democratic Congressional leaders promised to push the agenda, which parallels their own. “By the end of this year, I want to do something significant dealing with health care,” the Senate majority leader, [Harry Reid](#) of Nevada, told reporters.

The tax proposals, however, could galvanize Republican opposition and give conservatives a concrete target for taking on Mr. Obama, who despite his political strength could find some members of his own party reluctant to embrace tax increases.

Senator [Max Baucus](#), Democrat of Montana and chairman of the Senate Finance Committee, who has been

drafting a health plan, predicted in an interview that the Senate could pass legislation by its August recess. Mr. Baucus acknowledged that “there has to be revenue” to offset the costs of expanded coverage initially, but he did not endorse the proposal for limiting wealthy taxpayers’ deductions.

“There will be lots of options to pay it, not necessarily that one,” Mr. Baucus said.

He would not say what revenue options he would support. But he said tax increases of some kind would not prevent some Senate Republicans from aligning with Democrats to pass a health plan.

In the House, the Republican leader, Representative [John A. Boehner](#) of Ohio, telegraphed his side’s opposition to any tax increases.

“Everyone agrees that all Americans deserve access to affordable health care,” Mr. Boehner said in a statement, “but is increasing taxes during an economic recession, especially on small businesses, the right way to accomplish that goal?”

Mr. Boehner likewise criticized Mr. Obama’s cap-and-trade emissions permits proposal, saying, “Cap-and-trade is code for increasing taxes and killing American jobs, and that’s the last thing we need to do during these troubled economic times.”

To finance health care reform, administration officials suggested to senior aides in Congress on Wednesday that revenues could be raised by ending the policy of excluding the value of employer-provided health insurance from income taxes.

But the officials emphasized that the administration was not advocating that option, which not only is anathema to some in organized labor and business but also conflicts with Mr. Obama’s position in last fall’s presidential campaign.

The administration is proposing a number of other politically contentious ways of offsetting the costs of the health care initiative. Mr. Obama wants to require drug companies to give bigger discounts, or rebates, to Medicaid, the health program for low-income people.

Drug makers now must provide Medicaid with a discount equal to at least 15.1 percent of the average manufacturer price for a brand-name product. Mr. Obama wants to require discounts of at least 22.1 percent. Pharmaceutical companies have strenuously resisted such proposals in recent years.

Mr. Obama will also propose cutting Medicare payments to health insurance companies that provide comprehensive care to more than 10 million of the 44 million Medicare beneficiaries. He says he can save \$175 billion over 10 years with a new competitive bidding system, under which payments to private Medicare Advantage plans would be based on an average of the bids they submit to Medicare.

John M. Broder, Carl Hulse and Thom Shanker contributed reporting.

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