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TSCL
Defending Your Earned Benefits
Press Briefing
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For immediate release

The Medicare Tax That Never Made It To Medicare

President Biden proposed in the FY 2024 Budget that the revenues raised by the 3.8% Net Investment Income Tax (NIIT) should be "re-directed" to the Part A Trust Fund rather than the federal government's general revenue. Medicare Part A is facing insolvency by the end of 2032 according to trust fund projections of the Congressional Office's latest *Budget & Economic Outlook* for February 2023, and even sooner if the economy should worsen.

A 2022 survey of more than 2,550 older Americans by The Senior Citizens League (TSCL) indicates that 76 percent support doing so, and we think it's about time. The Senior Citizens League believes that Medicare healthcare costs cause many beneficiaries to shoulder a heavy financial burden in retirement. Cutting Medicare benefits, by shifting more costs to beneficiaries, would be the wrong way to strengthen program financing.

"What President Biden is proposing for the 3.8% Net Investment Income Tax , is simply to get the revenues to the program it was originally intended to support — Medicare," says Mary Johnson, Medicare and Social Security policy analyst for The Senior Citizens League.

The last time the Medicare Hospital Insurance Trust Fund faced insolvency (in 2010) Congress changed Medicare taxation in two ways. A 0.9% surtax was added to the amount of Medicare payroll taxes paid by high earning individuals on wages over $200,000 (individuals) or $250,000 (married filing jointly). This was in addition to the 1.45% tax that workers currently pay on their wages. At the same time a new 3.8% tax was applied to *net investment income* over the above amounts. For the first time, interest, dividends, capital gains, rental, royalty income, and non-qualified annuities would be taxed for Medicare purposes. The provisions were part of the Healthcare Education and Reconciliation Act of 2010 which provided funding for provisions of the 2010 Affordable Care Act.

"At least, this was my understanding of the new law — that the 3.8% tax on Net Investment Income Tax (NIIT) was intended to fund Medicare Part A. It turned out I was mistaken. But perhaps you will understand why I thought this way," Johnson says.

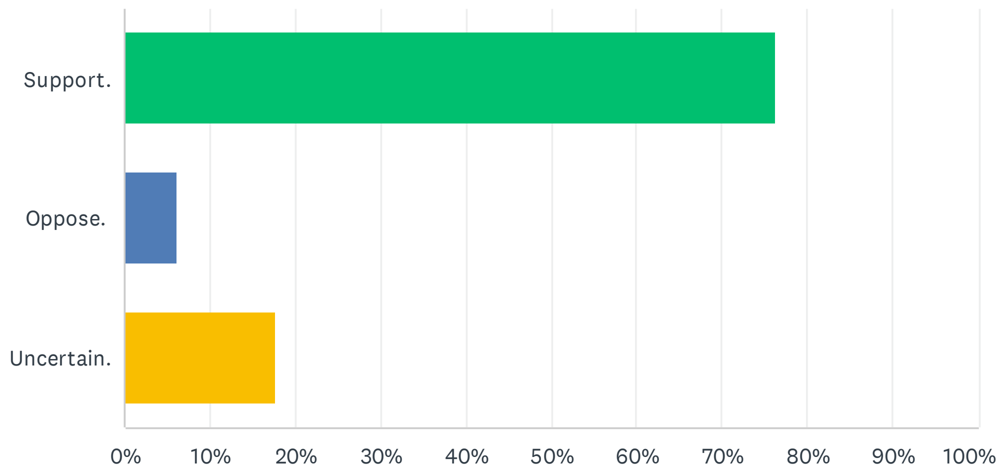
A summary of the legislative provisions about this tax that can be found on www.Congress.gov reads: *(Sec. 1402)* ***Includes net investment income in the Medicare taxable base*** *and imposes a 3.8% tax on such income, beginning in 2013. Excludes from such tax the net investment income of taxpayers with adjusted gross incomes of less than $200,000 ($250,000 for joint returns). Defines "net investment income" to include interest, dividends,* *annuities, royalties, rents, passive income, and net gain from the disposition of non-business property.*

Despite the specific reference to including net investment income in the Medicare taxable base, the 3.8% net investment tax has never gone to Medicare. It wound up going into the U.S. General Budget Fund instead. According to the Federal Register "*Amounts collected under section 1411 are not designated for the Medicare Trust Fund. The Joint Committee on Taxation in 2011 stated that's because 'No provision is made for the transfer of the tax imposed by this provision from the General Fund of the United States Treasury to any Trust Fund.'*"

Due to this interpretation of the law, those revenues weren't received by the Medicare Hospital Insurance Trust Fund (Part A) and are used today for other government spending. Because the revenues weren't earmarked for the Medicare Part A Trust Fund, those revenues aren't strengthen Trust Fund solvency, nor are they earning any interest from the non-marketable bonds that the Trust Fund would typically receive for surplus tax revenues either. In other words, the General Federal Budget gets the interest-free use of tax revenues that very much appear to originally have been intended for Medicare.

Q10 A 3.8% tax on net investment income, which was referred to as a “Medicare tax,” was signed into law shortly after the passage of the 2010 Affordable Care Act. Those revenues, which the Joint Committee on Taxation estimates to be $27.5 billion for 2021, never made it to the Medicare HI Trust Fund because the law contained no provision to transfer the funds to the trust fund. Those revenues go to the U.S. general budget fund instead and can be appropriated for any government spending. Would you support or oppose legislation that transfers revenues from the 3.8% net investment income tax to the Medicare HI Trust Fund?

Answered: 2,973 Skipped: 0



ANSWER CHOICES	RESPONSES	
Support.	76.29%	2,268
Oppose.	6.09%	181
Uncertain.	17.63%	524
TOTAL		2,973