Taxing Peter to subsidize Paul

Gov. Newsom proposes tax penalty on uninsured to help middle class

BY **SAMANTHA YOUNG** AND **ANA B. IBARRA** / Kaiser Health News

Claire Haas and her husband are at a health insurance crossroads. If they were single, each would qualify for a federal tax credit to help reduce the cost of their health insurance premiums. As a married couple, they get zip.

"We talk about getting divorced every time we get our health care bills," said Haas, 34, of Oakland, who has been married to Andrew Snyder, 33, for two years. "We kind of feel like we messed up. We shouldn't have gotten married."

The couple pays about $900 in monthly premiums—which adds up to about 14% of their annual income, said Haas, a self-employed leadership coach and consultant. Snyder is an adjunct professor of ethnomusicology.

Under a proposal by Gov. Gavin Newsom, that appears headed to approval, an estimated 850,000 Californians could get help paying their premiums, including people like Haas and Snyder, who together make too much to qualify for federal financial aid but still have trouble affording coverage.

To pay for the health insurance tax credits, the Democratic governor is proposing a tax penalty on Californians who don't have health insurance—similar to the unpopular federal penalty the Republican-controlled Congress eliminated, effective this year.

If Newsom's $295 million plan is enacted, California would be the first state to offer financial aid to middle-class families who have shouldered the full cost of premiums themselves, often well more than $1,000 a month.

Newsom's penalty and tax credit proposals made it into the budget deal he struck with Democratic legislative leaders on Sunday. The Legislature must pass a budget by June 15. Republicans and taxpayer groups are opposed to the proposed penalty, saying people should have a choice about whether to buy insurance.

"It's a very costly and regressive tax on young people who can't afford it," said David Wolfe, legislative director of the Howard Jarvis Taxpayers Association. "They likely aren't going to get sick, and they want to take that chance."

If lawmakers approve a state tax penalty, modeled after the now-defunct ACA mandate, some Californians could owe thousands of dollars if they fail to buy insurance.

Massachusetts and Vermont provide state financial aid to low-income people who qualify for federal aid under the ACA, according to the USC-Brookings Schaeffer Initiative for Health Policy. Newsom wants to go a step further and give financial help to middle-income earners—which could include families of four earning up to about $154,500.

Under his proposal, 75% of the financial aid would go to about 190,000 of these middle-income people who make between 400% and 600% of the federal poverty level. That's between about $50,000 and $75,000 a year for an individual and between about $103,000 and $154,500 for a family of four.

The average household tax credit in this category would be $144 per month, according to Covered California.

Exactly how much Californians could receive would vary depending on where they live, their ages, incomes and family size, said Peter Lee, Covered California's executive director.

Some lawmakers think Newsom's proposal doesn't go far enough. For instance, some households wouldn't qualify for a state tax credit until they spent a quarter of their income on premiums.

The state Senate wants the governor to double the funding to about $600 million, not only by relying on the penalty revenue but by dipping into the state general fund. California is projected to have a $21.5 billion budget surplus for budget year 2019-20.

While Newsom said he supports giving consumers larger subsidies, he said his plan is fiscally responsible because it has a dedicated revenue source from the proposed health insurance penalty.

"Perfect's not on the menu, but better than any other state in America is," Newsom said. ☐

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