February 14, 2023

Dear Member of Congress:

We write on behalf of Americans for Tax Fairness—a coalition of over 450 endorsing organizations dedicated to creating a fairer tax system—to urge your support for Rep. Lloyd Doggett’s Assuring Medicare’s Promise Act (H.R. 34). This vital bill would benefit over 65 million older and disabled Americans who rely on Medicare by extending the program’s solvency by twelve years from 2028 to 2040.

Representative Doggett’s bill would accomplish this by directing $650 billion into the Medicare trust fund in two ways. Roughly $250 billion would come from closing two tax loopholes primarily benefiting wealthy business owners described below. The other half would come from current tax collections that are going to the general fund but were originally intended for the Medicare Trust Fund.

President Biden proposed closing these two tax loopholes as explained in his proposed FY 2022 budget (pp. 65-67) and the House voted to close them when it passed the Build Back Better Act last year, which would have raised $252 billion (Subtitle H, Part 2). H.R. 34 does the same by ending the ability of certain wealthy business owners to dodge both the 3.8% Net Investment Income Tax (NIIT) and the Self-Employment Contribution Act (SECA) tax which, with the 0.9% extra Medicare tax on higher incomes, is also 3.8%. Both currently apply only to income over $250,000 (for married taxpayers; $200,000 for individual filers) The loopholes are also briefly explained in this CBO analysis (p. 66) and CRS fact sheet.

The NIIT is generally paid by wealthy investors on passive income like capital gains and dividends; the SECA tax is paid by business owners on the wages they pay themselves. Most pass-through businesses already pay these taxes. However, the owners of limited partnerships and S corporations, which are not subject to the corporate income tax, may be able to avoid the NIIT if they are actively involved in the business. H.R. 34 would close these loopholes by forcing business owners with income of over $400,000 to pay at least one of these taxes.

Because closing the NIIT loophole would only apply to the wealthiest business owners, over 88% of the tax would be paid by the highest-income 1%, or those making over $885,000 a year, according to the Tax Policy Center. Over half the tax would come from just the highest income 0.1%—business owners bringing in over $4 million annually.

H.R. 34 also strengthens Medicare’s finances by sending all NIIT revenue—both what’s currently collected and the extra amount raised through the H.R. 34 reforms—to the Medicare trust fund. That revenue now goes into the government’s general fund. Due to reconciliation rules, the revenue from the NIIT was unable to go directly into the Medicare Trust Fund as intended as part of the Affordable Care Act. This change would simply fulfill Congress’s original intent.
As House Republicans prepare to make devastating cuts to Medicare claiming its funding is not sustainable, it is important that Democrats offer an alternative that ensures this program can be fully funded for an additional 12 years. H.R. 34 delivers a double achievement by both closing two egregious tax loopholes exploited by the wealthiest business owners and strengthening Medicare, a bedrock of a secure retirement. It deserves your immediate support.

Sincerely,

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