



## **Proposed Budget Would Enact More Tax Cuts at the Expense of Commitments to Health Care**

### **A State-by-State Analysis of Budget Proposals for Medicaid and Tax Revenue**

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## **Introduction**

Congress is currently considering budget plans that follow the president's lead and prioritize tax cuts for the wealthiest Americans at the expense of Medicaid funding. The budget resolutions under consideration in the House and Senate would each cut federal funding for Medicaid by approximately \$15 billion while providing additional money for tax changes, which would include \$23 billion in tax cuts for capital gains and dividends.

[Update 4.27.2005] While the Senate voted to eliminate the Medicaid cuts altogether, it now appears that the House and Senate conferees will report a final budget that contains approximately \$10 billion in Medicaid cuts. While the cut is smaller than originally proposed, both states and Medicaid beneficiaries still stand to lose significantly.

The Medicaid cuts would have important implications for states' budgets and for health care for the poor. At the same time, the budgets under consideration contains tens of billions of dollars in new tax cuts, which would overwhelmingly benefit those best able to make the sacrifices necessary to reduce the deficit.

This analysis examines the state-by-state impact of the federal Medicaid cuts as proposed by the president and the Congress, and juxtaposes the results with state-by-state data on the magnitude of the tax cuts under consideration.

Under the president's proposal, the five-year revenue lost from the proposed tax cuts would total eight times the size of the Medicaid cuts. One component of the tax changes, the reduction in capital gains and dividend tax rates—a change that would primarily benefit those making more than \$200,000 a year—would be nearly twice the size of the five-year Medicaid cut.

In short, these painful cuts to Medicaid can be easily avoided by simply scaling back some of the proposed tax cuts that would benefit the very wealthy.

## Medicaid Cuts

The president's budget calls for short-sighted Medicaid cuts of \$44.6 billion over ten years that could lead to a dramatic increase in the number of uninsured and shift more costs onto states. Over the next five years, the cuts would total approximately \$13 billion. The U.S. House of Representatives and the Senate are considering even greater reductions to Medicaid funding—with cuts of \$15 billion and \$14 billion respectively included in the Congressional budget plans for the next five years.

[Update 4.27.2005] The budget as initially passed by the Senate removed the Medicaid cuts. However, it now appears that the final version reported out of conference will contain approximately \$10 billion in cuts.

Medicaid pays for health and long-term care services for more than 50 million of the nation's most vulnerable children, low-income parents, people with disabilities, and seniors.<sup>1</sup> The program expanded during the recent economic downturn, covering 6 million more vulnerable Americans and preventing an even sharper rise in the uninsured.<sup>2</sup> Currently, 45 million Americans are already without health insurance,<sup>3</sup> and further Medicaid cuts would increase the ranks of the uninsured, placing additional strains on cash-strapped states and localities.

## Lost Revenue from Tax Changes

In addition to service cuts, the president's budget contains numerous provisions that affect revenue, including extending expiring provisions from the 2001 and 2003 tax changes. According to the Congressional Budget Office (CBO), these proposed changes would account for a \$100 billion reduction in federal revenues over the next five years, and a \$1.4 trillion reduction over the next ten. (See Table 1.)

These five- and ten-year costs of the tax changes clearly outweigh the Medicaid cuts being advocated by the president.

In addition, some of the components of the proposed tax cuts would benefit primarily upper-income taxpayers; in particular, extending the new cuts for capital gains and dividends would provide large benefits to the top. In 2005, 74 percent of the benefits

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<sup>1</sup> Henry J. Kaiser Family Foundation, "The Medicaid Program at a Glance," version posted Jan. 26, 2005, available at <http://www.kff.org/medicaid/7235.cfm>.

<sup>2</sup> J. Holahan and A. Ghosh, "The Economic Downturn and Changes in Health Insurance Coverage, 2000-2003," September 2004, available at [http://www.kff.org/uninsured/upload/46827\\_1.pdf](http://www.kff.org/uninsured/upload/46827_1.pdf).

<sup>3</sup> U.S. Census Bureau, Income, Poverty and Health Insurance in the United States: 2003, available at <http://www.census.gov/hhes/www/income03.html>.

from these tax changes would go to those tax filers earning more than \$200,000 per year, and the average tax reduction is over \$35,000 for those making more than \$1 million.<sup>4</sup> For filers earning less than \$50,000, the average tax reduction is less than \$25 per year, and this group only receives 2.7 percent of the benefits from the tax cut.

The nationwide cost of extending the tax cuts for capital gains and dividends is about twice the cost of the Medicaid cuts over the next five years and over three times the cost over the next ten years.

[Update 4.27.2005] Separately, the House of Representatives has recently passed a full repeal of the estate tax. The estate tax is set to be repealed in 2010 for one year only. The estate tax is paid only by the wealthiest estates, and currently the first \$1.5 million (\$3 million per married couple) can be passed on to heirs tax free. The cost of repeal over the next 10 years is \$290 billion, and over the first 10 years in which the law would be in effect, the cost would be around \$1 trillion. The annual cost of providing this tax cut to only the very wealthiest is thus between 29 and 100 times the size of the cost of the Medicaid cuts.

## State-by-State Analysis

Table 2 presents the data on how much states stand to lose through the proposed cuts to Medicaid. Since the Medicaid program is administered by states, the Medicaid cuts would mean state governments would have less money from the federal government to provide benefits.

Table 2 also presents the revenue cost for the president's proposed cuts to capital gains and dividend tax rates. Estimates are presented for the next five years and the next ten years for the president's proposal. Table 3 and the appendices present the state-by-state data for the current Congressional proposals.

Under the president's proposal, the five-year revenue loss from the capital gains and dividend tax rate cuts alone outweighs the cost of the Medicaid benefit cuts for 40 states. For 48 states, the ten-year revenue loss from these tax cuts outweighs the Medicaid cuts.

The president's and Congress's budget proposals illustrate the sharp tradeoff between tax cuts for the wealthy and budget cuts for health care for the poor. By accepting the president's policies or by making even more significant cuts, Congress would be actively choosing to provide additional tax breaks for those who can best afford to pay at the expense of health care for the poor. That is a tradeoff that will leave the nation deeper in debt and further endanger the health of our most vulnerable citizens.

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<sup>4</sup> See the Tax Policy Center estimates available at <http://www.taxpolicycenter.org/TaxModel/tmdb/TMTemplate.cfm?DocID=748&topic2ID=60&topic3ID=62&DocTypeID=1>

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**Table 1. CBO's Estimate of the Effect of the President's Budget on Baseline Deficits or Surpluses<sup>5</sup>**

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Effect of the President's Proposals													
Revenues													
Extension of expiring EGTRRA and JGTRRA provisions													
General tax rates, child tax credits, and brackets	0	0	0	0	0	0	-96	-154	-158	-161	-166	0	-736
Estate and gift taxes	0	-1	-2	-2	-2	-3	-28	-55	-59	-67	-72	-9	-290
Tax rates on dividends and capital	0	0	0	-2	-13	-8	-22	-23	-25	-27	-28	-23	-148
Expensing for small businesses	0	0	0	-3	-4	-3	-2	-2	-2	-1	-1	-10	-19
Education, retirement, and other	0	0	0	0	0	0	-4	-7	-8	-9	-9	0	-36
Subtotal, proposed extensions	0	-1	-2	-7	-19	-13	-152	-241	-251	-265	-277	-42	-1,228
Research and experimentation credit	0	-2	-5	-6	-7	-8	-9	-9	-10	-10	-11	-29	-78
Deduction for high-deductible health	0	*	-2	-2	-3	-3	-3	-4	-4	-5	-5	-10	-33
Refundable health insurance credit	0	*	-1	-1	-1	-1	-1	-2	-2	-2	-1	-5	-12
Expansion of tax-free savings	0	3	5	4	3	*	-2	-3	-3	-4	-5	15	-2
Tax credit for developers of affordable	0	*	*	*	-1	-1	-2	-3	-3	-3	-3	-3	-17
Other proposals	*	-2	-2	-4	-9	-10	-9	-7	-5	-4	-4	-26	-55
Total, Revenues	*	-3	-7	-16	-37	-37	-178	-268	-278	-293	-307	-100	-1,425

<sup>5</sup> Data is from the Congressional Budget Office, "Preliminary Analysis of the President's Budget Request for 2006," March 2005, available at <http://cbo.gov/showdoc.cfm?index=6137&sequence=0>.

**Table 2. State-by-State Analysis of Lost Revenue and Medicaid Cuts from the President’s Budget Proposal<sup>6</sup>**

(Millions of Dollars)

State	5-year		10-year	
	Revenue Loss Due to Extending Capital Gains and Dividend Rate Reductions	Cuts to Medicaid	Revenue Loss Due to Extending Capital Gains and Dividend Rate Reductions	Cuts to Medicaid
<b>U.S. Total</b>	<b>23,000.0</b>	<b>12,767.0</b>	<b>148,000.0</b>	<b>44,637.0</b>
Alabama	212.3	184.4	1,365.8	644.8
Alaska	32.7	44.1	210.5	154.2
Arizona	364.4	285.8	2,344.9	999.1
Arkansas	155.1	160.5	998.2	561.1
California	3,178.2	1,333.7	20,451.1	4,662.9
Colorado	497.4	101.4	3,200.8	354.7
Connecticut	524.9	142.7	3,377.5	498.9
Delaware	66.4	31.2	427.5	109.1
District Of Columbia	81.9	61.8	527.3	216.0
Florida	2,044.5	575.7	13,155.8	2,012.7
Georgia	578.7	314.4	3,724.0	1,099.1
Hawaii	76.4	42.0	491.9	147.0
Idaho	79.8	52.1	513.3	182.0
Illinois	1,180.2	366.7	7,594.3	1,282.1
Indiana	324.9	244.2	2,090.7	853.7
Iowa	150.3	110.6	966.9	386.8
Kansas	153.2	91.8	986.0	321.0
Kentucky	184.2	206.7	1,185.1	722.7
Louisiana	181.3	242.4	1,166.6	847.6
Maine	95.7	98.0	615.7	342.7
Maryland	413.5	178.4	2,660.8	623.7
Massachusetts	838.3	361.1	5,394.3	1,262.3
Michigan	526.2	353.1	3,385.8	1,234.5
Minnesota	363.3	203.9	2,337.9	712.9
Mississippi	98.7	194.4	635.0	679.8
Missouri	346.1	297.2	2,226.8	1,039.1
Montana	73.6	38.1	473.7	133.3
Nebraska	114.9	68.1	739.3	238.1
Nevada	310.1	47.5	1,995.2	166.2
New Hampshire	131.8	47.4	848.0	165.6
New Jersey	778.1	307.5	5,007.0	1,075.2
New Mexico	89.1	127.2	573.4	444.7
New York	2,086.2	1,755.1	13,424.3	6,136.4

<sup>6</sup> For more details on the state-by-state calculations for the president’s request, see Appendix: Methodology.

North Carolina	488.3	400.6	3,141.8	1,400.6
North Dakota	28.8	25.7	185.3	89.8
Ohio	642.4	534.1	4,133.5	1,867.4
Oklahoma	139.4	142.0	897.3	496.6
Oregon	265.2	136.1	1,706.3	475.9
Pennsylvania	858.5	645.8	5,524.0	2,257.8
Rhode Island	74.5	71.3	479.7	249.4
South Carolina	207.9	199.2	1,337.5	696.4
South Dakota	52.1	31.6	335.0	110.4
Tennessee	336.7	341.7	2,166.6	1,194.8
Texas	1,356.7	778.3	8,730.2	2,721.0
Utah	124.2	72.6	799.3	253.8
Vermont	59.9	37.3	385.5	130.6
Virginia	600.8	168.0	3,866.3	587.3
Washington	580.5	214.1	3,735.2	748.4
West Virginia	56.1	108.1	361.2	377.8
Wisconsin	399.2	184.2	2,568.7	644.2
Wyoming	89.5	17.6	575.7	61.7

**Table 3. State-by-State Analysis of Lost Revenue and Medicaid Cuts from the President's and Congress's Budget Proposals**

(Millions of Dollars)

State	5-year				
	Revenue Loss Due to Extending Capital Gains and Dividend Rate Reductions	President's Request <sup>7</sup>	House of Representatives' Proposal <sup>8</sup>	Senate's Proposal as Passed by Committee <sup>9</sup>	House/Senate Joint Conference Agreement
<b>U.S. Total</b>	<b>23,000.0</b>	<b>12,767.0</b>	<b>14,931.0</b>	<b>14,000.0</b>	<b>10,000.0</b>
Alabama	212.3	184.4	215.7	202.3	144.5
Alaska	32.7	44.1	51.6	48.4	34.6
Arizona	364.4	285.8	334.2	313.4	223.8
Arkansas	155.1	160.5	187.7	176.0	125.7
California	3,178.2	1,333.7	1,559.7	1,462.5	1,044.6
Colorado	497.4	101.4	118.6	111.2	79.5
Connecticut	524.9	142.7	166.9	156.5	111.8
Delaware	66.4	31.2	36.5	34.2	24.4
District Of Columbia	81.9	61.8	72.3	67.8	48.4
Florida	2,044.5	575.7	673.2	631.3	450.9
Georgia	578.7	314.4	367.7	344.7	246.2
Hawaii	76.4	42.0	49.2	46.1	32.9
Idaho	79.8	52.1	60.9	57.1	40.8
Illinois	1,180.2	366.7	428.9	402.1	287.2
Indiana	324.9	244.2	285.6	267.8	191.3
Iowa	150.3	110.6	129.4	121.3	86.6
Kansas	153.2	91.8	107.4	100.7	71.9
Kentucky	184.2	206.7	241.7	226.7	161.9
Louisiana	181.3	242.4	283.5	265.9	189.9
Maine	95.7	98.0	114.6	107.5	76.8
Maryland	413.5	178.4	208.6	195.6	139.7
Massachusetts	838.3	361.1	422.2	395.9	282.8
Michigan	526.2	353.1	413.0	387.2	276.6
Minnesota	363.3	203.9	238.5	223.6	159.7
Mississippi	98.7	194.4	227.4	213.2	152.3

<sup>7</sup> For more details on the state-by-state calculations, see Appendix: Methodology.

<sup>8</sup> The House proposal contains up to \$20 billion in cuts to Medicaid over the next five years. If other proposals within the Energy and Commerce Committee are enacted, an estimated \$4.9 billion would be saved, resulting in \$14.9 billion in cuts to Medicaid. For more details, see Victoria Wachino, "The House Budget Committee's Proposed Medicaid and SCHIP Cuts are Larger than the Administration Proposed," available at <http://www.cbpp.org/3-10-05health.htm>.

<sup>9</sup> The Senate's proposal instructs the Finance Committee to reduce spending by \$15 billion over the next five years. \$14 billion of this reduction is expected to come from Medicaid. Update 4.27.2005: The final version passed by the Senate removed the cuts from the program.

Missouri	346.1	297.2	347.6	325.9	232.8
Montana	73.6	38.1	44.6	41.8	29.9
Nebraska	114.9	68.1	79.6	74.7	53.3
Nevada	310.1	47.5	55.6	52.1	37.2
New Hampshire	131.8	47.4	55.4	51.9	37.1
New Jersey	778.1	307.5	359.6	337.2	240.9
New Mexico	89.1	127.2	148.8	139.5	99.6
New York	2,086.2	1,755.1	2,052.6	1,924.6	1,374.7
North Carolina	488.3	400.6	468.5	439.3	313.8
North Dakota	28.8	25.7	30.1	28.2	20.1
Ohio	642.4	534.1	624.6	585.7	418.3
Oklahoma	139.4	142.0	166.1	155.7	111.2
Oregon	265.2	136.1	159.2	149.3	106.6
Pennsylvania	858.5	645.8	755.2	708.1	505.8
Rhode Island	74.5	71.3	83.4	78.2	55.9
South Carolina	207.9	199.2	232.9	218.4	156.0
South Dakota	52.1	31.6	36.9	34.6	24.7
Tennessee	336.7	341.7	399.6	374.7	267.7
Texas	1,356.7	778.3	910.2	853.4	609.6
Utah	124.2	72.6	84.9	79.6	56.9
Vermont	59.9	37.3	43.7	41.0	29.3
Virginia	600.8	168.0	196.5	184.2	131.6
Washington	580.5	214.1	250.4	234.7	167.7
West Virginia	56.1	108.1	126.4	118.5	84.6
Wisconsin	399.2	184.2	215.5	202.0	144.3
Wyoming	89.5	17.6	20.6	19.3	13.8

## Appendix: Methodology

The analysis assumes that the cross-state distribution of tax changes is the same as the cross-state distribution of the relevant underlying tax base as reported by the IRS for 2002.<sup>10</sup> So, for example, if the residents of Alabama claim 2 percent of the dividend income, it is assumed that 2 percent of the change in tax liabilities from a change in dividend tax rates would be attributed to Alabama residents.<sup>11</sup>

The state-by-state distribution of the Medicaid cuts assumes that the cuts are in proportion to the current projected Medicaid expenditures across states.<sup>12</sup> Under the president's budget, actual cuts across states may differ from these estimates since the president's proposal may have a disproportionate impact on certain states. More precise estimates are not possible without further details on the president's intentions and the degree to which specific states would be impacted by the policy shifts.

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<sup>10</sup> IRS, Tax Year 2002, United States Selected Income and Tax Items for Individual Income Tax Returns: Forms 1040, 1040A & 1040EZ, By State and Size of Adjusted Gross Income, available at <http://www.irs.gov/taxstats/article/0,,id=103106,00.html>.

<sup>11</sup> Because of the progressive tax structure of the U.S. tax code, to the extent that overall income distributions within income base categories and within states vary significantly across states or change significantly over time, the estimates will contain some bias.

<sup>12</sup> Data is from FamiliesUSA (see above), which was derived from Centers for Medicare and Medicaid Services in the November 2004 CMS 37, available at <http://www.cms.hhs.gov/medicaid/mbes/ofs-37.asp>.

## Appendix: Larger Cuts possible

The proposed Congressional budgets allow for greater cuts to Medicaid than assumed above. If there are no reductions in other programs (or increases in revenue) within the relevant committee's jurisdiction, the Medicaid cuts might be larger than assumed. In the Senate, cuts may be as large as \$15.2 billion, while in the House, cuts may be as large as \$20 billion. State-by-state breakdowns for these amounts are below.

(Millions of Dollars)

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	Cuts to Medicaid	
State	House of Representatives' Proposal	Senate's Proposal
<b>U.S. Total</b>	<b>20,000.0</b>	<b>15,200.0</b>
Alabama	288.9	219.6
Alaska	69.1	52.5
Arizona	447.7	340.2
Arkansas	251.4	191.1
California	2,089.2	1,587.8
Colorado	158.9	120.8
Connecticut	223.6	169.9
Delaware	48.9	37.1
District Of Columbia	96.8	73.6
Florida	901.8	685.4
Georgia	492.5	374.3
Hawaii	65.8	50.0
Idaho	81.6	62.0
Illinois	574.5	436.6
Indiana	382.5	290.7
Iowa	173.3	131.7
Kansas	143.8	109.3
Kentucky	323.8	246.1
Louisiana	379.8	288.6
Maine	153.6	116.7
Maryland	279.5	212.4
Massachusetts	565.6	429.9
Michigan	553.1	420.4
Minnesota	319.4	242.7
Mississippi	304.6	231.5
Missouri	465.6	353.8
Montana	59.7	45.4

Nebraska	106.7	81.1
Nevada	74.5	56.6
New Hampshire	74.2	56.4
New Jersey	481.7	366.1
New Mexico	199.3	151.4
New York	2,749.5	2,089.6
North Carolina	627.6	477.0
North Dakota	40.3	30.6
Ohio	836.7	635.9
Oklahoma	222.5	169.1
Oregon	213.2	162.1
Pennsylvania	1,011.6	768.8
Rhode Island	111.8	84.9
South Carolina	312.0	237.1
South Dakota	49.5	37.6
Tennessee	535.3	406.8
Texas	1,219.2	926.6
Utah	113.7	86.4
Vermont	58.5	44.5
Virginia	263.2	200.0
Washington	335.3	254.9
West Virginia	169.3	128.7
Wisconsin	288.6	219.4
Wyoming	27.6	21.0

## Appendix: Potential Conference Agreement

Updated: 4.27.2005

The House and Senate are reportedly considering a conference report that would contain \$10 billion in cuts to Medicaid. The following table shows an estimate of the amount that would be lost in each state.

<u>(Millions of Dollars)</u>	
	<u>Cuts to Medicaid</u>
<u>State</u>	<u>House/Senate Joint Conference Agreement</u>
<b>U.S. Total</b>	<b>10,000.0</b>
Alabama	144.5
Alaska	34.6
Arizona	223.8
Arkansas	125.7
California	1,044.6
Colorado	79.5
Connecticut	111.8
Delaware	24.4
District Of Columbia	48.4
Florida	450.9
Georgia	246.2
Hawaii	32.9
Idaho	40.8
Illinois	287.2
Indiana	191.3
Iowa	86.6
Kansas	71.9
Kentucky	161.9
Louisiana	189.9
Maine	76.8
Maryland	139.7
Massachusetts	282.8
Michigan	276.6
Minnesota	159.7
Mississippi	152.3
Missouri	232.8
Montana	29.9

Nebraska	53.3
Nevada	37.2
New Hampshire	37.1
New Jersey	240.9
New Mexico	99.6
New York	1,374.7
North Carolina	313.8
North Dakota	20.1
Ohio	418.3
Oklahoma	111.2
Oregon	106.6
Pennsylvania	505.8
Rhode Island	55.9
South Carolina	156.0
South Dakota	24.7
Tennessee	267.7
Texas	609.6
Utah	56.9
Vermont	29.3
Virginia	131.6
Washington	167.7
West Virginia	84.6
Wisconsin	144.3
Wyoming	13.8

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