

Tax Deductions, Not Tax Credits

The replace part of the President's health care bill is under criticism for including tax credits. The argument is that tax credits (or direct payments from the U.S. treasury) establish a new entitlement when they go to folks who either pay no taxes at all or who pay an amount in taxes less than the amount paid in the credit. The credits are aimed at enabling those without the financial wherewithal to pay for private insurance to help manage the cost of insurance. There is an alternative to tax credits that I discuss at some length in my book *Restore the Republic*. That alternative would create an incentive for family members, businesses, health care providers and hospitals to pay for the care of the indigent without taxpayers footing the bill through tax credits.

In *Restore the Republic*, I recommend that legislation be passed to codify a tax deduction equal to a \$1.50 for every \$1.00 paid by an individual or corporation to pay for the health care of a person in need or an employee. By codifying a deduction of this kind, people could substantially reduce their tax liability by doing what they likely would do were they not taxed so heavily (take care of their own).

Each taxpaying family member should be able to reduce his or her taxes significantly by covering the cost of health care (or health insurance) given another family member. Each taxpaying employer should be able to reduce its taxes significantly by covering the cost of health care (or health insurance) given an employee. Each physician, health care provider, or hospital should be able to reduce his or its taxes significantly by covering the cost of health care for the indigent.

This approach encourages philanthropy and family ties while at

the same time granting significant tax relief. It decreases funding of public sector health care programs while increasing private care and philanthropy.

Private philanthropy of this kind is far more efficient, accurate, and effective than government programs which are ordinarily rife with waste, fraud and abuse.

Therefore, as the Republican majority mulls over the President's Obamacare replacement, it would do well to replace the tax credit approach with the tax deduction approach I have explained above. By permitting the family member, business, health care provider and hospital to be given a meaningful tax deduction for taking care of their own, the President will likely build a greater base of support for his replacement plan than currently exist in the House and Senate.

Conservatives and libertarians rightly contend that tax deductions are likewise manipulative and distort private markets, but we live in a world of second bests. Obamacare exists and so does the massive welfare state. To wean the nation from both requires measures that afford a politically achievable transition. The proposal I offer, of tax deductions for taxpayers to foot the medical and medical insurance bills of family members, employees, and the indigent is a realistic means to transform the health care market, making it far less public, far more responsive to the market, and far more capable of helping those in need than the current system.