Don’t Tax High-Earners’ Annuity Income, Says ACLI

By Editor Test *Thu, Feb 25, 2010*

It's counter-productive to finance Medicare at our customers' expense, life insurance lobby tells Obama.

The American Council of Life Insurers apparently believes that President Obama’s proposed 2.9% tax on unearned income—including annuity income—would hurt annuity owners.

It would presumably also make annuity sales less attractive, at least incrementally. And it certainly flies in the face of industry efforts to protect some level of annuity income from income tax.

The tax would apply to income from interest, dividends, annuities, royalties and rent for individual taxpayers with incomes above $200,000 and couples with incomes above $250,000.

To protest the President’s proposal, which was intended to help maintain the Medicare Hospital Trust Fund, the ACLI released a letter from its president, Frank Keating. The letter, dated February 24, says in part:

“I am writing to express serious concerns about the Administration’s proposal to apply a 2.9 percent tax on annuity income to fund the Medicare Hospital Insurance (HI) trust fund as part of a series of proposed changes to the Patient Protection and Affordable Care Act.

“Currently, Americans face unprecedented difficulties securing their retirement income in an environment that has shifted longevity, savings and other retirement risks onto the individual. In such a landscape, policy-makers should not create a disincentive for annuity products that help Americans address these risks.

“As such, I would encourage you to reevaluate this proposal that increases taxes on an important retirement security tool and instead, continue to take a proactive approach to encourage individuals to take their savings in retirement as a guaranteed lifetime income payment.”

The Obama tax was described in his recent health care proposal, released February 22. In the relevant section, it said:

“The President’s Proposal adopts the Senate bill approach and adds a 2.9 percent assessment (equal to the combined employer and employee share of the existing Hospital Insurance tax) on income from interest, dividends, annuities, royalties and rents, other than such income which is derived in the ordinary course of a trade or business which is not a passive activity (e.g., income from active participation in S corporations) on taxpayers with respect to income above $200,000 for singles and $250,000 for married couples filing jointly.

“The additional revenues from the tax on earned income would be credited to the HI trust fund and the revenues from the tax on unearned income would be credited to the Supplemental Medical Insurance (SMI) trust fund.”