

What tax provisions subsidize the cost of health care?

A host of tax preferences for health care will cost the federal government roughly \$250 billion in revenue in 2015. The largest is the exclusion from taxable income of employer contributions for health insurance premiums.

EXCLUSION FOR EMPLOYER CONTRIBUTIONS TO HEALTH INSURANCE

In 2015, the federal government will lose roughly \$250 billion in income tax revenue from at least 10 tax preferences for health care. By far the most costly is the exclusion of employer contributions for health insurance premiums from taxable income. In most cases, employee contributions to health insurance premiums are excluded from income taxes. The Joint Committee on Taxation estimates tax expenditures on the exclusion for employer-sponsored health insurance will be \$150.6 billion in fiscal year 2015.

OTHER MAJOR TAX EXPENDITURES FOR HEALTH CARE

Table 1 outlines the major federal tax expenditures for health care:

- Medicare benefits are excluded from taxable income (\$64.3 billion).
- Individuals may claim as an itemized deduction out-of-pocket medical expenses and health insurance premiums paid with after-tax dollars and exceeding 10 percent of their adjusted gross income (\$11.0 billion).
- By the same token, self-employed individuals may deduct health insurance premiums from their income (\$5.6 billion).
- Individuals ineligible for employer-sponsored or public health insurance may use tax credits to purchase insurance on ACA exchanges (\$5.4 billion).
- Corporations and individuals may claim contributions to qualified health organizations as itemized deductions if the contributions are less than half of their adjusted gross income (\$5.1 billion).
- Medical benefits provided by workers' compensation insurance are excluded from taxable income (\$4.9 billion).

- Coverage for military retirees and dependents is excluded from taxable income (\$3.2 billion).
- Interest on certain bonds issued for hospital construction is excluded from taxable income (\$2.5 billion).
- Individuals under 65 covered by high-deductible health insurance plans may take an income tax deduction for contributions to health savings accounts (HSAs). Employers may make HSA contributions that are excluded from income taxes. Additionally, HSA balances grow tax free, and withdrawals for medical expenses are not subject to income tax (\$1.9 billion).
- Small employers who pay low average wages may take a credit when providing employees with health insurance. The credit phases out as firm size and average wages increase; it can only be taken for two years (\$1.5 billion).
- Pharmaceutical companies testing drugs for rare diseases may claim the orphan drug credit (\$0.8 billion).

TABLE 1

Tax Expenditures for Health Care

Millions of dollars, 2015



Tax expenditures	Millions of dollars
Exclusion of employer contributions for medical insurance premiums and medical care	150,600
Exclusion of Medicare benefits	64,300
Deductibility of medical expenses by individuals	11,000
Deductibility of medical insurance premiums for self-employed	5,600
Tax credit offsetting income tax for individual insurance purchased through health benefit exchanges ^a	5,400
Deductibility of charitable contributions to health organizations	5,100
Exclusion of workers' compensation medical benefits	4,900
Exclusion of medical care for military dependents and retirees	3,200
Exclusion of interest on hospital construction bonds	2,500
Health savings accounts	1,900
Tax credit for small businesses purchasing health insurance	1,500
Credit for orphan drug research	800

Sources: Joint Committee on Taxation.

(a) JCT estimates that premium credits will reduce tax revenues by \$5 billion and result in outlays of \$30 billion in 2015.

DATA SOURCE

Joint Committee on Taxation. [Estimates of Federal Tax Expenditures for Fiscal Years 2014–18](#).

FURTHER READING

Gruber, Jonathan. 2011. "[The Tax Exclusion for Employer-Sponsored Health Insurance](#)." *National Tax Journal* 64(2, part 2): 511–30.

Joint Committee on Taxation, Tax Expenditures for Health Care ([JCX-66-08](#)), July 30, 2008.