

## Key Elements of the U.S. Tax System

How much does the federal government spend on health care?

TAXES AND HEALTH CARE  
1/10**Q. How much does the federal government spend on health care?****A. The federal government spent nearly \$1.1 trillion in fiscal year 2018. In addition, income tax expenditures for health care totaled \$225 billion.**

The federal government spent nearly \$1.1 trillion on health care in fiscal year 2018 (table 1). Of that, Medicare claimed roughly \$583 billion, Medicaid and the Children's Health Insurance Program (CHIP) about \$399 billion, and veterans' medical care about \$70 billion. In addition to these direct outlays, various tax provisions for health care reduced income tax revenue by about \$225 billion. Over \$146 billion of that figure comes from the exclusion from taxable income of employers' contributions for medical insurance premiums and medical care. The exclusion of employer contributions to medical care also substantially reduced payroll taxes, though that impact is not included in official tax expenditure estimates. Including its impact on both income and payroll taxes, the exclusion reduced government revenue by \$280 billion in 2018.

**TABLE 1****Estimated Federal Spending and Tax Expenditures for Health Care**  
Fiscal Year 2018

Program	Cost (millions of dollars)
<b>Spending</b>	
Spending for Medicare net of offsetting receipts	\$583,200
Medicaid and CHIP	\$399,000
Veterans' medical care	\$70,400
Affordable Care Act (ACA) subsidies for nongroup coverage other than premium tax credit	\$6,000
<b>Tax Expenditures<sup>a</sup></b>	
Exclusion of employer contributions for medical insurance premiums and medical care <sup>b</sup>	\$146,100
Premium tax credit for insurance purchased through ACA marketplaces	\$49,200
Deductibility of medical expenses by individuals	\$9,400
Deductibility of medical insurance premiums for self-employed	\$6,400
Health Savings Accounts	\$5,300
Exclusion of workers' compensation medical benefits	\$4,600
Exclusion of medical care for military dependents and retirees	\$3,000
Tax credit for small businesses purchasing health insurance	\$600

**Sources:** Congressional Budget Office (2018a and b); Joint Committee on Taxation (2018); and Office of Management and Budget (2018).

(a) The Joint Committee on Taxation no longer classifies excluding Medicare benefits from taxable income as a tax expenditure.

(b) Only includes lost income tax revenues. Including income and payroll taxes, the exclusion reduced government revenue by \$280 billion.

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### Data Sources

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