

Key Elements of the U.S. Tax System

TAXES AND HEALTH CARE

How much does the federal government spend on health care?

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A. The federal government spent nearly \$1.2 trillion in fiscal year 2019. In addition, income tax expenditures for health care totaled \$234 billion.

The federal government spent nearly \$1.2 trillion on health care in fiscal year 2019 (table 1). Of that, Medicare claimed roughly \$644 billion, Medicaid and the Children's Health Insurance Program (CHIP) about \$427 billion, and veterans' medical care about \$80 billion. In addition to these direct outlays, various tax provisions for health care reduced income tax revenue by about \$234 billion. Over \$152 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 \$273 billion in 2019.

TABLE 1

Estimated Federal Spending and Tax Expenditures for Health Care
Fiscal Year 2019

Program	Cost (millions of dollars)
Spending	
Spending for Medicare net of offsetting receipts	\$644,000
Medicaid and CHIP	\$427,000
Veterans' medical care	\$80,300
Affordable Care Act (ACA) subsidies for nongroup coverage other than premium tax credit	\$9,000
Tax Expenditures^a	
Exclusion of employer contributions for medical insurance premiums and medical care ^b	\$152,500
Premium tax credit for insurance purchased through ACA marketplaces	\$52,900
Deductibility of medical expenses by individuals	\$7,100
Health Savings Accounts	\$6,900
Deductibility of medical insurance premiums for self-employed	\$6,400
Exclusion of medical care for military dependents and retirees	\$4,200
Exclusion of workers' compensation medical benefits	\$4,000

Sources: Congressional Budget Office (2020a and b); Joint Committee on Taxation (2020); and Office of Management and Budget (2020).

(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 \$273 billion.

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Data Sources

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