

FACTS from EBRI

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Tax Expenditures and Employee Benefits: Estimates from the FY 2009 Budget

- The federal government supports the provision of employee benefits through preferential tax treatment in the Internal Revenue Code. The Congressional Budget Act of 1974 (P.L. 93-344) requires that a list of “tax expenditures” (federal tax revenue forgone due to preferential provisions) be included in the budget. The concept of “tax expenditures” has always been controversial, particularly as it relates to programs that are “tax deferred” (such as retirement plans, under which tax revenue ultimately will be collected) rather than “tax exempt” (meaning programs in which no revenue will be ever collected) (*EBRI Issue Brief* no. 134, February 1993, provides a full review of this controversy).
- For the next fiscal year (2009), all employee benefits-related tax expenditures (\$347.9 billion) will account for 36.7 percent of the \$948.157 billion tax expenditures in the budget. Tax-favored employment-based health insurance benefits will account for the largest tax expenditure presented in the budget (\$168.46 billion, or 17.8 percent of the total amount and 48.4 percent of all employee benefits-related tax expenditures), followed by employment-based retirement plans (\$96.67 billion, or 10.2 percent of the total amount and 27.8 percent of all employee benefit related tax expenditures).
- The following is a listing of the employee benefits tax expenditures, as published in President Bush’s Fiscal Year 2009 budget, prepared by the White House Office of Management and Budget, using a methodology that is flawed but mandated by Congress.

There are three types of tax treatments for employee benefits: tax exemption, tax deferral, and other preferential treatment:

- *Tax-exempt* treatment in the tax code means that the benefit is not considered taxable income to the individual. Examples of employee benefits that receive this type of tax treatment are health insurance, educational assistance, legal assistance, child-care, discounts, flexible spending accounts, parking, cafeteria facility, and meals. The largest of these is health insurance. According to the president's 2009 budget, the tax exemption for employment-based health insurance is projected to cost the federal government \$1,051.95 billion from 2009 through 2013. This is tax revenue the federal government will not recoup at some later point.
- *Tax-deferred* treatment means that the employee is not immediately taxed on (1) the contributions the employer and/or the employee makes to the plan, and/or (2) on the earnings on plan assets as they accumulate, but will typically be taxed on portions not previously taxed when the benefit is paid. Examples of employee benefits that receive this type of tax treatment are Keogh plans, defined benefit pension plans, defined contribution plans (such as 401(k) plans), and individual retirement accounts (IRAs). According to the president's 2009 budget, the tax exemption for employer plans is projected to cost the federal government \$541.31 billion from 2009 through 2013. When IRAs and Keoghs are added, the tax revenue loss estimate is \$690.71 billion for 2009–2013.

The revenue loss estimate for pension contributions and earnings is different from health insurance. The tax revenue loss estimate is actually a *deferral* of taxation, rather than an exemption. At some point in the future, when the individual starts drawing a benefit from the plan, the federal government will receive some tax revenue from the benefit payment.

- *Other benefits* are subject to limits and/or provisions with respect to tax treatment. For example, employer payments to the premium of life insurance are tax-exempt to the employee up to a benefit of \$50,000; any premium amount for a benefit greater than \$50,000 is taxable income to the employee. The benefit payout from a life insurance policy is not taxable income to the beneficiary. According to the

president's 2009 budget, the tax exemption for employment-based life insurance is projected to cost the federal government \$12.13 billion from 2009 through 2013.

For data for all years 1975-2008 go to [EBRI's Databook on Employee Benefits Chapter 5](#). There is also a spread sheet with inflation-adjusted dollars.

For more information, contact Ken McDonnell, (202) 775-6300, or see EBRI's Web site at www.ebri.org.

Source: Executive Office of the President, Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2009* www.whitehouse.gov/omb/budget/fy2009/

Employee Benefit Tax Expenditures				
White House Fiscal Year 2009 Budget Estimates				
	Tax Expenditures, by Fiscal Year			
	2008 ^a	2009 ^a	2013 ^a	2009–2013 ^a
Transportation	(\$ millions)			
Exclusion of reimbursed employee parking expenses	\$2,950	\$3,070	\$3,540	\$16,550
Exclusion for employer-provided transit passes	440	470	580	2,620
Education, Training, Employment and Social Services				
Exclusion of employer-provided educational assistance	660	690	0	1,460
State pre-paid tuition plans	1,040	1,290	2,430	9,620
Exclusion of employer-provided child care	1,340	1,400	1,600	7,470
Employer-provided child care credit	10	10	0	40
Exclusion of employee meals and lodging (other than military)	970	1,010	1,230	5,580
Health				
Exclusion of employer contributions for medical insurance premiums and medical care	151,810	168,460	254,810	1,051,950
Self-employed medical insurance premiums	4,680	5,170	8,180	33,100
Medical Savings Accounts/Health Savings Accounts	1,140	1,480	1,450	7,680
Exclusion of Social Security Benefits				
Old-Age and Survivors Insurance benefits for retired workers	18,480	18,640	24,320	106,090
Benefits for dependents and survivors	3,320	3,240	3,740	17,320
Disability Insurance benefits	5,540	5,810	7,560	33,220
Income Security				
Exclusion of railroad retirement system benefits	370	370	330	1,770
Exclusion of workers' compensation benefits	5,830	5,920	6,300	30,540
Exclusion of special benefits for disabled coal miners	40	40	40	200
Exclusion of military disability pensions	110	130	260	940
Net Exclusion of Pension Contributions				
Employment-based plans	95,120	96,670	118,620	541,310
Employer plans	46,120	45,670	41,620	216,310
401(k)	49,000	51,000	77,000	325,000
Individual Retirement Accounts	10,800	11,700	15,200	67,400
Keoghs plans	12,000	13,000	21,000	82,000
Special ESOP rules (other than investment credit)	1,600	1,700	2,000	9,300
Low and Moderate Income Savers	880	900	860	4,390
Exclusion of Other Employee Benefits				
Premiums on group term life insurance	2,170	2,250	2,620	12,130
Premiums on accident and disability insurance	310	320	360	1,700
Income of trust to finance supplementary unemployment benefits	30	30	50	210
Veterans' Benefits and Services				
Exclusion of veterans' disability compensation and death benefits	3,870	3,950	5,260	22,680
Exclusion of veterans' pensions	180	180	220	990
Total	325,690	347,900	482,560	2,068,260
Addendum				
Deductibility of mortgage interest on owner-occupied homes	94,790	100,810	130,440	576,680
Source: Executive Office of the President, Office of Management and Budget, <i>Analytical Perspectives, Budget of the United States Government, Fiscal Year 2009</i> www.whitehouse.gov/omb/budget/fy2009/				
^a Projected.				