Protect employer-provided health plans in tax reform. Most Americans get health insurance through plans voluntarily sponsored and financed by their employers. Long-standing tax rules that protect employees from tax on health coverage are a major reason employer-provided health insurance is so prevalent. Even seemingly modest changes in those tax rules would result in dangerous disruption that would include increased costs of health insurance for employees and the potential loss of health care protection as more employers drop health plans or reduce the scope of coverage. With employers already under enormous stress from the uncertainty and costs of Patient Protection and Affordable Care Act (PPACA) implementation, this is not the time to change the tax rules for employer-provided health plans.

THE CURRENT TAX TREATMENT OF HEALTH PLANS IS FAIR

• **Current Tax Rules Prevent Unfair Taxation of Speculative Phantom Income:** The current employee tax exclusion ensures that employees will not have to pay unfair tax on income they never received. Changes in the current health plan tax exclusion could subject individuals to thousands of dollars in tax based on a theoretical value of employer-paid health coverage that in most cases would bear little relation to the actual value the particular employee received. It is not equitable, for example, to require a healthy young worker to pay more tax simply because he or she works for an employer with a workforce with generally higher average health costs.

• **Concern that the Health Plan Exclusion is Regressive is Unwarranted:** In a progressive income tax system, tax exclusions naturally provide marginally greater benefit to those paying taxes at higher tax rates, but the health plan exclusion is by far the most progressive of the major tax expenditures. Overall, the 20% of Americans with the highest income pay over 68% of federal taxes, but derive only 34% of the benefit from the health insurance tax expenditure (compared with 81% of itemized deductions, for example) (Urban Institute 2012 and CBO 2013). One reason is the distribution of employer-provided coverage to the entire workforce as discussed below. Another is that the tax exclusion also applies to payroll taxes, with higher wage employees and business owners effectively deriving no tax benefit from the exclusion from the Social Security (OASDI) payroll tax.
• **Middle-Class Americans are the Primary Beneficiaries of the Health Plan Tax Rules:** The middle 60% of Americans by income derive 60% of the benefits from the health plan exclusion. And the tax expenditure as a share of income is greater for middle income households (3.1% for the middle 60%) than it is for those with higher incomes (1.9% for the 20% with the highest income and only 0.5% for the top 1%) (CBO 2013). Put differently, eliminating the tax exclusion would result in a much larger reduction in take home income for those with income below $75,000 than for those with income over $250,000.

• **Employer-Provided Health Plan Benefits are Typically the Same for All Employees:** One reason health plan benefits are equitably distributed among employees of all incomes is that most employers provide the same or comparable health coverage to all full-time employees, i.e., executives usually get the same benefits as rank-and-file workers. In many cases, a senior executive with individual or employee plus spouse coverage will actually receive a substantially less valuable benefit than a lower wage worker with family coverage.

• **Health Plans are Not Allowed to Discriminate in Favor of Executives:** Tax rules have long provided that self-funded health plans are prohibited from offering benefits that discriminate in favor of highly-compensated employees. Business owners, and now (under the PPACA) employers providing insured health plans, will also be subject to similar rules.