



The American

# Health Care Reform Act

A REPUBLICAN STUDY COMMITTEE INITIATIVE

## **Further Explanation – Standard Deduction for Health Insurance**

Americans who buy insurance on their own should receive a tax benefit equal to those who receive it through their employer. In addition to simple fairness, ensuring that workers receive a tax benefit—no matter their situation—will allow true insurance portability, greater consumer choice, and create incentives for additional competition amongst health insurers.

Employer-sponsored health insurance benefits are currently excluded from taxation, and are fully deductible for employers as a business expense. The vast majority of families or individuals who purchase insurance on their own, however, do not receive any tax relief. They are buying health insurance with post-tax dollars.

To address this inequity, the RSC bill will level the playing field so that all Americans with health insurance get an equal benefit by treating employer-sponsored health insurance benefits as wages to the employee. While maintaining employers' ability to deduct payments for employees' health benefits as a business expense, we offer a new tax benefit to replace the existing tax exclusion, which:

- 1) Creates a standard deduction for health insurance (SDHI) of \$7,500 for individuals and \$20,500 for families, indexed annually for inflation (CPI-U). This above-the-line deduction would be received in full regardless of how much your health insurance costs. Based on Kaiser Family Foundation data, the vast majority of Americans would receive a tax cut. The SDHI will also be applied against payroll taxes, ensuring all hardworking Americans benefit.
- 2) Excludes from taxation any employer contribution to health insurance benefits up to the SDHI (\$7,500 for individuals, \$20,500 for families). Any benefit provided by the employer above this level would be subject to payroll taxes.

The SDHI is structured so that the overwhelming majority of Americans will be able to keep the coverage they have and receive a tax cut. Those who receive benefits in excess of the SDHI will benefit from a system that encourages plan choice and competition should they decide to shop for alternative coverage. With the tax benefit tied to simply having insurance, workers will be empowered to seek out coverage that is right for them and their family, and employers are encouraged to engage their employees in discussions about the right mix of wage and benefit compensation.