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Finance

Tax Deductibility of Employer-Sponsored Health Insurance Tax deductibility of employer-sponsored (group) health insurance

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Objective: To propose the debate that tax deductibility of employees is detrimental in the delivery of health benefits since it promotes overspending and favors high-income earners.

Data sources: USA treasury, Joint Committee on Taxation (JCT), the Congressional Budget Office, the US Treasury

Principal findings: tax deductibility of employees encourages overspending on insurance thus benefiting the wealthy taxpayers with high marginal tax. Broader level of health insurance creates social value leading to formation and maintenance of risk pool to the employed (Pauly, 1989). In addition, this tax regime disrupts efficiency of market labor, reduces efficiency of health insurance, and provision of health care services.

Conclusion: changing the tax exclusion is critical in increasing retention although this also reduces job mobility and discrimination of employees prone to health complications. Employers will avoid employing employees with high health cost. Moreover, high insurance coverage makes the insured negligent to their health concerns. This tax exclusion increases lost revenue hence the need to eliminate the tax exclusion, limit the tax exclusion, and replacing the tax regime with tax rebates.

Counter arguments: Tax deductibility increases the distribution of insurance cover to all regardless of income and social status (Pauly, 1989). This tax regime promoted the heath of American by reducing the cost healthcare

services, reducing health insurance premium, and tax burden to the insured. Moreover, this provides flexibility in health insurance system, increases innovation on delivery of healthcare, and encourages equitable distribution of resources

Reference

Pauly, M. (1989). Taxation, Health Insurance and Market Failure in the Medical Economy. Journal of Economic Literature, 24(2) , 629-675.