

*Fact Sheet***Tax Treatment of Health Benefits**

Many small employers do not understand how the tax code treats the cost of health insurance. Based on findings from the 2000 Small Employer Health Benefits Survey (SEHBS), this fact sheet shows how these employers' perception of the tax treatment of health benefits often differs from reality, and discusses some of the implications.

Perception of Taxation of Health Benefits

Many small employers make decisions about whether or not to offer health insurance coverage to their workers without being fully aware of the tax advantages *to the employer* that can make this benefit more affordable.

- 57 percent of all small employers surveyed do not know that health insurance premiums are 100 percent tax deductible.
- 65 percent of respondents to the survey do not realize that health insurance premiums are treated like general business expenses with regard to taxes.
- Nearly 60 percent of employers offering health benefits do not know that health insurance premiums are treated like general business expenses, compared with 73 percent of employers that do not offer health benefits.

With respect to knowledge about the tax treatment of health insurance benefits *as it affects their workers*, many employers continue to make false assumptions.

- Nearly 50 percent of employers are not aware that employees who purchase health insurance on their own generally cannot deduct 100 percent of their health insurance premiums.
- 37 percent do not know that employees are not taxed on the share of their premiums that are paid by their employer.

Reality of Tax Treatment***Employers***

- Health insurance premiums paid by employers on behalf of workers are tax deductible for employers as a business expense.
- Health insurance premiums paid by employers are treated the same way other labor costs and general business expenses are treated under the tax code.

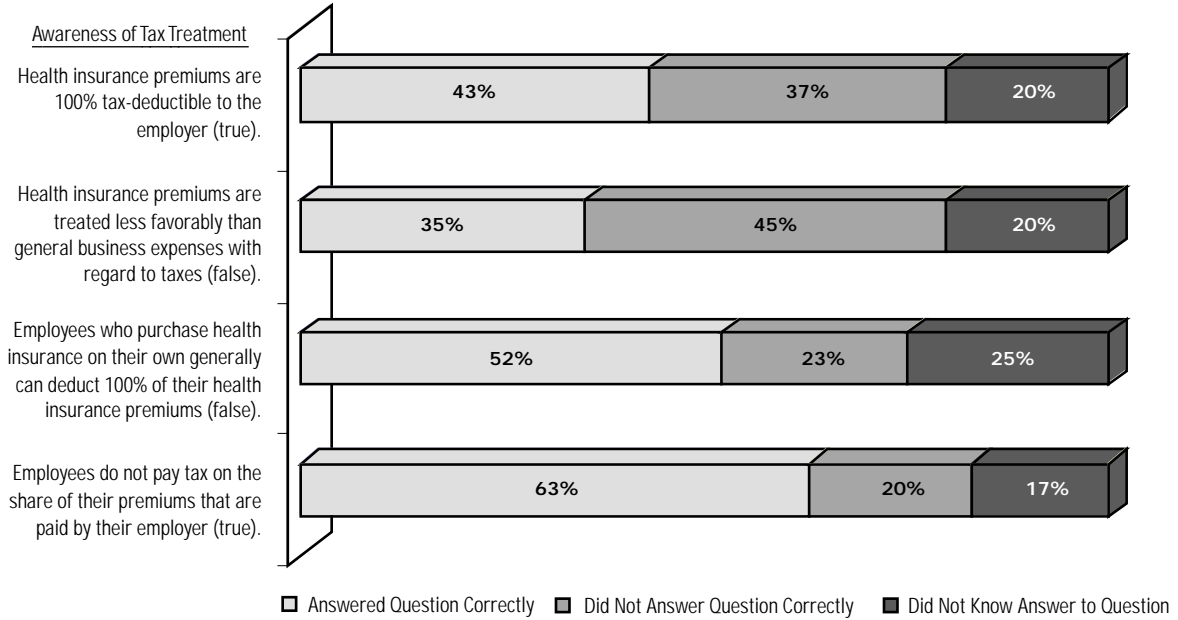
Workers

- The amount that employers pay on behalf of their workers' health premiums is excluded, without limit, from workers' taxable income.
- If a worker purchases health insurance directly from an insurer, generally none of the premium can be deducted from his or her taxable income. For individuals who do not receive employment-based health benefits, total health care expenses (including premiums) are deductible only if they exceed 7.5 percent of adjusted gross income, and only the amount that exceeds 7.5 percent of adjusted gross income is deductible.

Implications

It is important for employers to understand the tax treatment of health insurance for a number of reasons. Probably the most important reason is the fact that misperceptions about how health insurance is taxed may prevent employers from offering health benefits in the first place. In addition, if employers are unaware of how the tax code affects their workers, it is likely that the workers are also unaware, and do not know the true value of the health benefits they are being offered.

Many Small Employers Are Unaware of Tax Incentives to Offer Health Insurance Benefits



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.