The little-known Project 2025 tax on employee benefits

More than 15 million workers paying at least $12 billion more in taxes

By now, many Americans know that Project 2025 is the collection of terrible ideas that would form the core of the Trump-Vance administration's policy agenda. But one Project 2025 proposal has not yet gotten the attention it deserves: taxing the non-wage benefits that workers receive from their employers (see page seven)

In particular, Project 2025 calls for taxing employers on the value of workplace benefits they provide that exceeds $12,000 per worker annually, part of long-standing conservative policy efforts to reduce the generosity of health insurance plans. This tax would lead to employers cutting back on these benefits. At best, employers would switch compensation away from tax-preferred benefits to taxable wages and salaries, increasing the taxes workers must pay. At worst, employers would simply cut back on benefits without offering an offsetting increase in wages and salaries.

If this Project 2025 benefits tax was enacted, we estimate that just based on health insurance benefits in 2022 alone:

- More than 15 million workers would have seen their benefits taxed.
- Their taxes would have risen by more than $12 billion if employers shifted away from benefits to other forms of taxable compensation.

Below, we explain the Project 2025 proposal to tax employee benefits and walk through its implications. We will note here, however, that the recent "disbanding" of Project 2025 does not mean that Republican attacks on employer benefits are over. For one, we know that Project 2025 represented a highly organized effort to grab the policy levers in a potential Trump-Vance administration. The candidates can claim Project 2025 has no influence on them, but organized conservative constituencies for the corporate class got everything they wanted in the first Trump administration. There's no reason to expect this time to be different. Further, recent reporting has highlighted that the Trump campaign met with the architects of Project 2025 and expressed enthusiastic approval of its direction.

Finally, a similar proposal to tax employer-provided benefits is part of the Republican Study Committee (RSC) plan for fiscal policy. In short, trying to unravel employer-provided benefits and the public safety net for health insurance is not an idiosyncratic feature of Project 2025, it's a central goal of the conservative policymaking ecosystem. They will have their opportunity should a Trump-Vance administration come to pass.

Background

The Project 2025 proposal would no longer allow employers to deduct non-wage benefit costs in excess of $12,000 per worker annually from business taxation. Currently, all wages and other employee benefits can be deducted as a cost to an employer when they are calculating the taxes they owe. But if benefit costs in excess of $12,000 can no longer be deducted, this means employers will have to pay the full tax rate on these benefits ***even though they do not constitute income to the employer***.

If employers have to pay taxes on a form of compensation that is now no longer allowed to be deducted from their own taxation, they will stop offering this compensation. In the worst case, they will just cut back on employee benefits and workers will lose them with no offsetting increase in other forms of compensation. In the best case, they will ***shift*** compensation away from benefits that are now no longer allowed to be deducted and toward other forms of compensation (like wages).

Currently, roughly 13% of employee compensation in the United States takes the form of non-wage benefits provided by employers (not including mandatory contributions for social insurance like Social Security and Medicare or the value of paid leave). About two-thirds of this chunk of non-wage benefits is employer contributions to health insurance. Employer-provided health insurance is the dominant form of coverage in the United States, with over 150 million people receiving health insurance through employer plans (including dependents covered on another person's plan). If employers start being taxed on these benefits, they will become less and less likely to offer them going forward.

The Project 2025 proposal frames the provision of non-wage benefits like health insurance as employers foisting their desires on unwilling workers who would rather have only wages as compensation, limiting "the freedom of workers to spend their compensation as they see fit." This is an almost exact inversion of the dynamics at play here—the gains employees receive from being able to exclude the value of employer-provided benefits from the income and payroll taxes they pay is enormous, dwarfing any benefit that accrues to employers from the current tax treatment of benefits. Because they receive the much larger direct tax benefit from the status quo, it seems clear that it is employee preferences that maintain the system of job-based benefits in the United States.

How many workers receive over $12,000 per year in employer contributions to health insurance?

The Medical Expenditure Panel Survey (MEPS) answers this question almost directly, showing the employer contribution to health insurance premiums ranked by various percentiles of these contributions, shown below in **Table 1**. By interpolating between these reported percentiles, we can estimate how many workers have benefits above this $12,000 cap by plan type—with the results shown below in **Figure 1**.

TABLE 1

Employer contribution to health insurance premiums in 2022 by percentile and plan type, conditional on enrollment

	Single	Plus One	Family
10th	$2,900	$4,300	$5,700
25th	4,400	7,400	11,000
50th	5,900	11,000	16,000
75th	7,300	14,000	20,000
90th	8,900	17,000	24,000
100th*	9,790	18,700	26,400

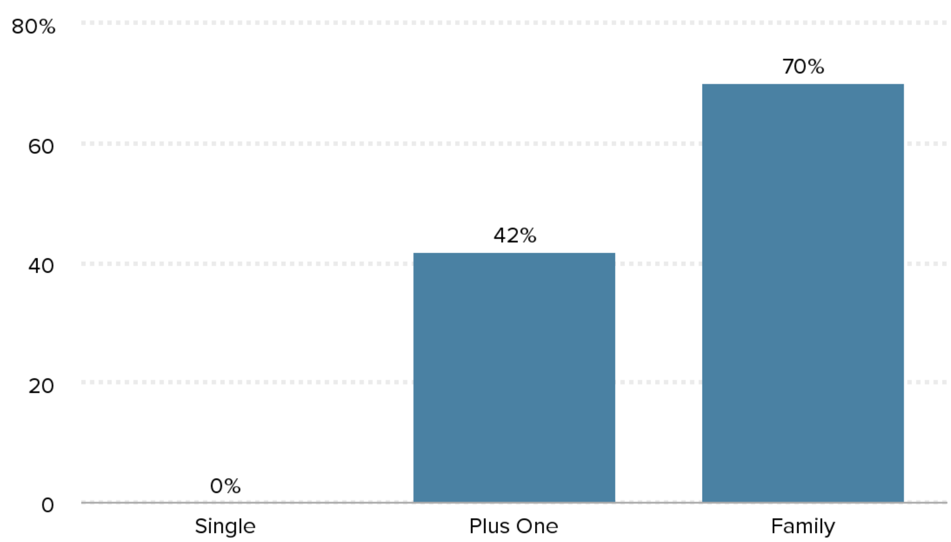
*Set at 10% above the 90th percentile

Source: Medical Expenditures Panel Survey, Insurance Component (MEPS-IC). Data query on distributional percentile of costs, employer cost distributions for covered workers, all sizes. The 100th percentile assumes highest costs are 10% higher than the 90th percentile.

FIGURE 1

Very large shares of Plus One and Family insurance plans would be taxed

Share of workers with more than $12,000 in employer-provided health benefits, by plan type



Source: Author’s calculations based on data from the MEPS-IC.

One example will help explain our interpolation. The MEPS indicates that the 50th percentile of workers with "Plus One" health insurance (covering themselves and one family member) ranked by employer contributions receives $11,000 per year in these benefits. The 75th percentile receives $14,000. This $3,000 difference indicates that moving one percentage point higher in the distribution between the 50th and 75th percentiles should see employer contributions rise by $120, meaning that the $12,000 cap will be hit at the 58th percentile. In other words, 42% of all workers with "Plus One" insurance plans will be over the cap.

For workers with family plans, this interpolation indicates that 70% of workers receive employer contributions putting them above the cap. For workers with single plans, the 90th percentile receives under $9,000 in employer contributions so we assume zero are over the cap.

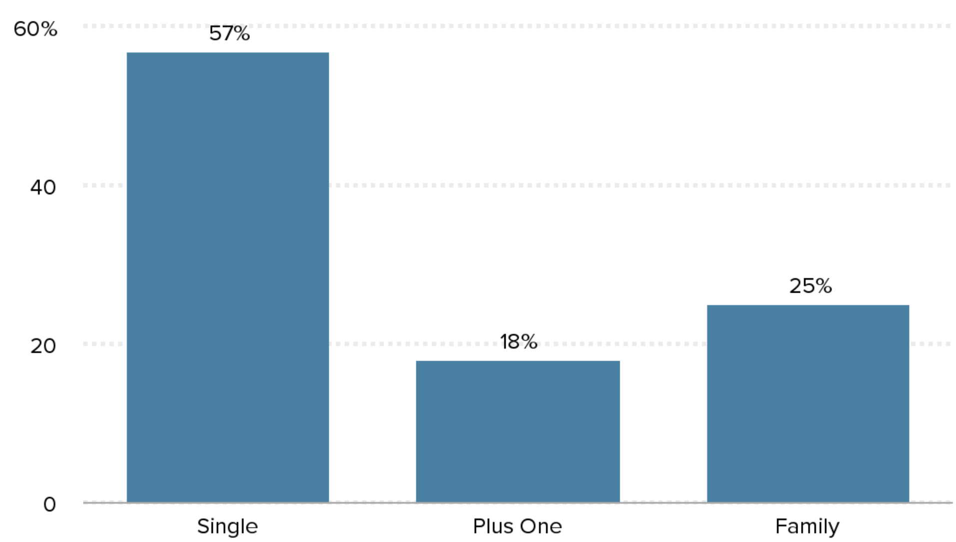
Figure 2 shows the number of workers currently enrolled in these plan types, conditional on being enrolled in an employer-provided plan. 57% of workers currently have single plans, 18% have Plus One plans, and 25% have family plans.

Given that the MEPS indicates that roughly 63 million workers are enrolled in their firms' health insurance plans, this implies that 4.8 million workers with Plus One plans and 11 million workers with family plans would be over the cap, for a total of 15.8 million workers with health insurance plans that would have been taxed by the Project 2025 proposal had it been in effect.

FIGURE 2

Over 40% of workers are in Plus One and Family health insurance plans

Share of covered workers, by health insurance plan type



Source: MEPS-IC

It is worth noting how damaging the Project 2025 proposal would be for families that rely on one working adult's employer-provided health insurance plan for covering dependents. If, for example, a two-earner household with young kids has one earner working part time to have more time for child care, the part-time earner is highly unlikely to qualify for employer-provided insurance (which is usually made contingent by employers on working full time), and so this family must rely on the full-time earner having access to a family health insurance plan. The Project 2025 plan would hence greatly increase hardship for such families. As a side note, part of the Project 2025 plan would disallow employers from deducting the cost of family health insurance plans (regardless of the overall level) stemming from covering dependents over the age of 23. This is a clear attempt to roll back one of the more popular parts of the Affordable Care Act (ACA), which allowed children to be covered on their parents' family health insurance plans until age 26.

Project 2025 is clear that this $12,000 cap is a maximum—it could come in even lower—and should not rise with inflation. This means the number of those seeing their benefits threatened or taxed could be much larger and is guaranteed to grow over time. Even the estimates in this post are based on 2022 data and are hence an underestimate.

How much extra tax will workers have to pay if compensation shifts away from benefits?

Currently, the value of employer-provided health insurance benefits to workers is not subject to income or payroll taxes. But if the Project 2025 tax on employers providing these benefits became effective, these employers would at best shift compensation to other forms that are taxable to the employees (wages and salaries). At worst, employers would just stop providing benefits over the cap.

If employers shift compensation from tax-preferred benefits to wages and salaries, this will lead to workers paying ***higher taxes on the same amount of total compensation***. The logic here is the same as it was for the excise tax on expensive health insurance plans (sometimes called the "Cadillac Tax") that was part of the ACA before being repealed in 2019. In each case, the direct tax will likely be avoided by employers, but only through their decision to stop offering benefits over a certain threshold. This either means a reduction in benefit quality for workers, or it means that compensation will shift from non-wage benefits to taxable wages and salaries.

By using our interpolations about how much employer contributions rise for each one-percentage-point move up the distribution of costs, we can get a very rough estimate of the total dollar value of employer-provided health benefits over the $12,000 cap, at least up to the 90th percentile. If we make one more very conservative assumption that the 100th percentile of employer costs is only 10% higher than the 90th percentile, we can then make an overall estimate of the dollar value of employer-provided health insurance benefits spilling over the $12,000 cap.

Once we make these assumptions, we can assign an employer contribution amount to every single percentile in the distribution. For each percentile, we can calculate the difference between the employer contribution and the $12,000 cap—call this the “excess” contribution. So, for example, at the 75th percentile for workers with Plus One coverage, the employer contribution is $14,000, indicating that the “excess” contribution is $2,000. For the 76th percentile for workers with Plus One coverage, our interpolation indicates that the employer contribution is $14,200, or $2,200 over the cap. Doing this for each percentile and then taking the average gives an estimate of the average amount by which a worker’s employer contribution for health insurance exceeds the $12,000 cap for those workers over the cap.

For workers with Plus One plans who receive more than $12,000 in employer contributions to health insurance premiums, the average excess of these contributions over the $12,000 cap is $1,300. For workers with family plans over the $12,000 cap, the average excess is $4,000. Multiplying these average excess amounts by the number of workers over these respective caps and adding them together yields the estimate that more than ***$48 billion*** in employer contributions to health insurance benefits are over the $12,000 cap. For reference, this is still less than 5% of the total amount that employers spend on health insurance benefits. The worst-case scenario would be a simple rollback of employer benefits to stay under the $12,000 cap with no offsetting compensation increase anywhere else, and hence a loss of $48 billion in total compensation to workers.

The more likely—and still quite bad—scenario is that employers will shift compensation away from these benefits and into forms that remain tax deductible for them, like wages and salaries. If the average effective tax rate on wages is 25% (including payroll taxes), then this implies workers will face an additional $12 billion or more in taxes due to a shift in compensation away from tax-preferred benefits to wages and salaries that are taxed.

Conclusion

The Project 2025 proposal to tax employee benefits is actually part of a long campaign by conservative policymakers to shift costs onto families as the main way to control economy-wide health care costs. But a large evidence base indicates that more pooling of costs and risks in health care, and a larger public role in managing these costs, is the better way to go than an “everybody is on their own” approach to managing the economic risks of health care costs.

Whatever its source, the outcome of the Project 2025 plan to tax employee benefits is clear: U.S. workers will lose access to key family-sustaining benefits and face higher taxes.

Josh Bivens August 14, 2024 epiaction.org EPIAction