# Retirement-related tax breaks = $276 bn in 2019

By Editorial Staff *Thu, Oct 28, 2021*

*The value of exclusions and deferrals of taxes for contributions to and earnings in pensions and retirement savings accounts was $276 billion in 2019. The exclusion for employee health insurance (including payroll tax expenditure) was $280 billion.*

In a new **report**, the Congressional Budget Office (CBO) estimates that major tax expenditures reached a combined $1.2 trillion in 2019, or 5.8% of gross domestic product, and accounted for roughly three-quarters of the total budgetary effects of all tax expenditures that year.

The exclusion and deferrals for the contributions and earnings associated with pensions and retirement savings accounts ($276 billion) and the exclusion for employment-based health insurance ($280 billion including the payroll tax expenditure) were the two largest. The smallest of the major tax expenditures was the state and local tax deduction ($22 billion).

Tax expenditures are exclusions, deductions, credits, and net preferential rates in the federal tax system that cause government revenues to be lower than they would otherwise be for any given structure of tax rates.

In the new report, the Congressional Budget Office showed how the benefits from major tax expenditures in the individual income tax and payroll tax systems were distributed among households in different income groups in 2019.

In 2019, the distribution of benefits from the tax expenditures analyzed in this report varied considerably among income groups:

Overall, about half of the total benefits from income tax expenditures accrued to households in the highest quintile (the top 20%) of the income distribution, whereas 9% of such benefits accrued to households in the lowest quintile. Payroll tax expenditures were more evenly distributed.

Households in the lowest quintile received benefits equal to 16% of their total income before transfers and taxes, whereas households in the highest quintile received benefits equal to 7% of such income.

Among the various tax expenditures, the distribution of benefits varied greatly. For example, about 95% of the benefits from the qualified business income deduction accrued to households in the two highest quintiles of the income distribution, whereas 82% of the benefits from the earned income tax credit accrued to households in the two lowest quintiles.

Provisions of the 2017 tax act (Public Law 115-97) reduced the total estimate of benefits from income tax expenditures by 9%. On net, those provisions made the distribution of tax expenditures more progressive because most of the benefits reduced by the tax act would have accrued to households in the highest quintile.