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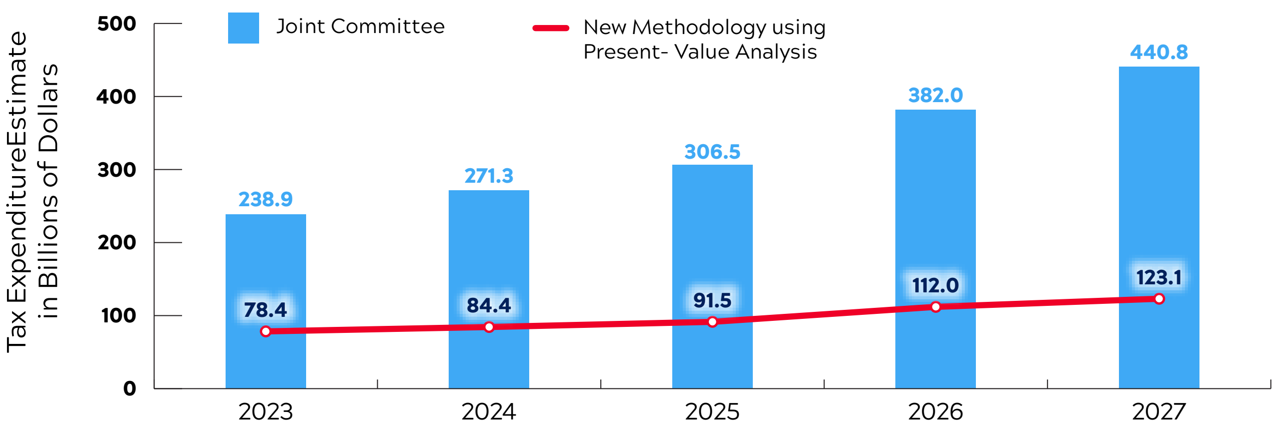
Working for America's Retirement

Myth: The Amount of Tax Expenditures for 401(k) Plans Exceeds $400 Billion

JCT OVERESTIMATES THE TAX COSTS ASSOCIATED WITH 401(K) PLANS BY OVER 70 PERCENT

Most tax incentives, like mortgage interest deductions, are immediate and fit well within the JCT's five-year window. However, 401(k) plans allow participants to defer their tax liability until retirement, making near-term estimates inaccurate and staggeringly high. For example, JCT's most recent report estimates that the tax expenditures tied to 401(k) plans will exceed $440 billion by 2027, when the reality is that the true cost is 70 percent less than what JCT's figures suggest.[1]

Joint Committee Annual Estimates Compared to the New Methodology



Present Value (PV): The PV methodology is a better approach to accurately evaluate tax expenditures because it compares the value of taxes lost today with projected taxes collected upon future withdrawals.

Policy Implications: Tens of millions of Americans depend on 401(k) plans to secure a comfortable retirement. Misleading estimates could lead to unfavorable policy changes that weaken the 401(k) system and threaten the retirement security of millions of working Americans.

1 Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2023-2027, available at: https://www.jct.gov/getattachment/4bb6796c-df84-4179-9226-8cce61c7c4b5/x-59-23.pdf