Health Care Reform:
Cadillac Tax

Capital Benefit Services

What exactly is the Cadillac Tax?

The "Cadillac Tax" is a 40% excise tax imposed on employer sponsored health care coverage that is scheduled to take effect in 2020 on certain high cost health care plans.

What is the purpose of the Cadillac Tax?

The Affordable Care Act included the Cadillac Tax in the law as a means to both encourage employers to offer plans that are cost effective as well as become a source of significant tax revenue to help finance the expansion of health coverage.

How does the Cadillac Tax work?

Starting in 2020 the Cadillac Tax imposes a new 40%, non-deductible excise tax assessed on the value or cost of employer-sponsored health coverage above certain benefit thresholds. Note this includes both employee and employer contributions.

Starting in 2020 the initial benefit threshold is:

- Self-only coverage $10,200
- Family coverage $27,500

The value or costs over and beyond amount this threshold will be subject to the 40% excise tax. So for example, in 2018 if the cost for self-only coverage for your company was $13,000, the then excise tax on the plan would be $1,120.

Total cost of the plan		Self-only threshold level		Amount over and beyond threshold
$13,000	-	$10,200	=	$2,800
		Applicable excise tax		Total excise tax due per enrolled employee on plan
$2,800	*	40%	=	$1,120

What benefits are included in the calculation?

Virtually any employer sponsored coverage that is paid on a *pre-tax basis* is going to be subject to this tax. Examples include:

- Employer-sponsored medical, dental, and vision coverage
- Health Flexible Spending Arrangement (FSA)
- Health Savings Account (HSA)
- Health Reimbursement Arrangement (HRA)
- On-site medical clinics
- Disease or fixed indemnity plans if premiums are paid on a pre-tax basis
- Retiree coverage

What benefits are excluded from "applicable coverage"?

- Certain excepted benefits (e.g., accident or disability insurance, liability insurance, workers' compensation, other similar coverage)
- Long-term care coverage
- Coverage for specified disease or illness if paid after-tax
- Fixed indemnity coverage if paid after-tax
- Vision or dental insurance covered through a separate policy – i.e. standalone dental or vision plans.
- *Employee post-tax contributions are excluded*

How do you calculate the coverage costs?

The total costs of all applicable benefit plans must be calculated in which an employee is *enrolled*. Not based on any plan made *available*. This is an important distinction as your company may offer a plan deemed subject to the tax, yet only those employees enrolled would trigger any tax implications.

What are the next steps?

While some of the details on the actual enforcement of this tax are still forthcoming, the law does provide for certain adjustments to be made in calculating any potential tax. These include

- Age/gender workforce adjustment
- Qualified retirees (55+) and high-risk workers adjustment
- Increase of $1,650 for self-only coverage; $3,450 for family coverage
- Indexed to inflation and applied after any age/gender adjustment
- Possible age/gender safe harbor adjustment based on relationship to the national workforce

What happens after 2018?

After 2020, the tax is poised to increase as the threshold amounts are indexed for inflation

Summary

Although the Cadillac Tax is still a few years away, it is important to begin understanding the true costs of your total benefits package. While most employers may find their costs are well under the thresholds, others may find that they need to begin steps now to ensure unnecessary tax consequences later.

For further information visit:

https://www.irs.gov/Affordable-Care-Act/Affordable-Care-Act-Tax-Provisions#Tax%20Provisions%20for%20Employers