



Healthcare Reform Excise Tax

In this volume of our Demystifying Healthcare Reform series, we'll address the Patient Protection and Affordable Care Act's upcoming Excise Tax, also called the "Cadillac" plan tax. This controversial regulation goes into effect on January 1st, 2020, but it's important to begin planning for it as soon as possible.

What is the Excise Tax?

The Excise Tax is an addition to the Internal Revenue Code that establishes an annual limit on the cost of employer-sponsored health coverage and levies a 40% tax on any costs exceeding that amount. Because this provision specifically targets high-cost plans provided to employees, it is sometimes referred to as the "Cadillac Tax."

The thresholds for the tax are as follows:

- **\$10,200 for self-only coverage**
- **\$27,500 for family plans** (any coverage provided to an employee and at least one other beneficiary)

For retirees and high-risk professionals, the limits are slightly higher:

- **\$11,850 for self-only coverage**
- **\$30,950 for family plans**

Anything over this amount will be taxed at 40%, non-deductible, starting in 2020.

These limits are indexed to increase each year with inflation. The IRS is also considering increasing these limits for certain workforces based on the age and gender of their employees.

What is the purpose of the Excise Tax?

The Excise Tax is intended to slow the rate of cost increase for healthcare across the market (which will especially benefit those in low-cost plans), as well as cap the amount of tax-free benefits that can be provided by employers, and generate revenue to offset some of the costs associated with other areas of the ACA.

A Congressional Research Service report estimates that the tax would reduce national health expenditures by as much as \$60 billion by 2024, and a 2015 Congressional Budget Office estimates show that it will reduce the deficit by about \$90 billion from by 2025.

Who is affected?

Any employer-sponsored plans that exceed the cost limits in a given month over a "taxable period"—generally understood to mean the full calendar year for all taxpayers, though the IRS does have the ability to prescribe different taxable periods for employers of varying sizes—will be taxed. Unlike other areas of the ACA, such as the employer "pay or play" mandate, the Excise Tax is not contingent on the size of the employer, so there are no exemptions for small businesses. Religious organizations and other non-profits, as well as government entities, are also applicable. Notably, costs will be based on the plan an employee is actually enrolled in for any given month of coverage—not the most expensive plan offered to that employee.

However, the following types of coverage are excluded from potentially incurring the tax:

- Coverage only for accident, or disability income insurance
- Coverage issued as a supplement to liability insurance
- Liability insurance (including general liability insurance and automobile liability insurance)
- Workers' compensation
- Automobile medical payment insurance
- Credit-only insurance
- Other insurance coverage in which benefits for medical care are secondary or incidental to other insurance benefits
- Coverage for long-term care
- Dental- and vision-only plans
- Coverage for a specific disease/illness or fixed indemnity, if the payment for the coverage is not excluded from gross income or deduction is not allowed
- Coverage pursuant to a plan for members of the military or their families

Experts estimate that the Excise Tax will affect **25% to 60% of all employers in the U.S.** who do not alter their current offered coverage before the provision comes into play in 2020.

How is the Excise Tax calculated?

The tax is calculated monthly. Employers must determine, based on the annual cost of applicable coverage, the extent to which costs exceed the dollar limit during any month of the taxable period. The amount taxed at 40% for an employee's plan in a given month is equal to the aggregate cost of applicable employer-sponsored coverage for that month that exceeds 1/12 of the annual limit for that employee for the applicable calendar year. Note that the tax is only levied for months in which the limit is exceeded, so if a new plan that comes in under the limit is started part-way through the year, the employer won't be penalized for the preceding months.

Here are some examples:

For an **individual plan**:

- A plan annually costing \$13,500 (\$1,125 monthly, with an annual limit of \$10,200) would have \$275 in excess cost per month.
\$275 x 40% = \$110
Total Excise Tax for the calendar year: \$1,320

For a **family plan**:

- A plan annually costing \$32,300 (\$2,692 monthly, with an annual limit of \$27,500) would have \$400 in excess cost per month.
\$400 x 40% = \$160
Total Excise Tax for the calendar year: \$1,920

Who is responsible for paying the Excise Tax?

The IRS stipulates that the "coverage provider" is the responsible party for paying the tax. For insured group health plans, the coverage provider is the issuer of the health insurance, though this is likely to be passed on to the employer. For Health Savings Accounts (HSAs) or Archer medical savings accounts (MSAs), the coverage provider is the employer. For all other types of coverage, the provider is defined as "the person who administers the plan benefits." In most cases this will be the employer, though exceptions exist. The IRS is currently determining how "the person who administers the plan" should be defined. It will be either **1)** the person responsible for the day-to-day administrative functions of plan benefits, or **2)** the person with ultimate authority or responsibility with respect to the administration of plan benefits, as identified in the plan documents.

Also note that any employers that are aggregated as a single employer (controlled group) by Internal Revenue Code Section 414 are also considered a single employer for Excise Tax purposes.

What else should I know?

The Excise Tax is not deductible. For cases in which someone other than the employer is responsible for the Excise Tax and elects to pass all or part of this amount onto the employer as an "Excise Tax reimbursement" payment, an additional amount to cover the extra income tax for the coverage provider may be assessed as well. Because coverage providers generally will not know the precise amount of the excise tax until after the taxable period ends, the provider will generally be unable to bill employers for either the Excise Tax reimbursement or the income tax reimbursement until after the Excise Tax has been paid.

The Excise Tax may be the most controversial aspect of the Affordable Care Act. Several factors are still yet to be finalized, and, thus, are subject to change. As always, we'll stay on top of these legislative changes and continue to demystify them for your organization. To get proactive alerts and communications on the status of the Excise Tax and all other aspects of the ACA, Ultimate Software customers can also take advantage of [UltiPro ACA Employer Services](#).

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1. <https://www.irs.gov/pub/irs-drop/n-15-16.pdf>
2. <http://www.bna.com/cadillac-tax-necessary-n57982059311/>
3. Expanding Options for Employers in Next-Generation Private Exchanges, Towers Watson, July 2013
4. <http://www.mondaq.com/article.asp?articleid=432456&friend=1>
5. <https://www.irs.gov/pub/irs-drop/n-15-52.pdf>