



CADILLAC TAX

Important Update to the Cadillac Tax

On December 20, 2019, President Trump signed into law a full repeal of the 40% tax on high-cost employer plans known as the Cadillac Tax. By enacting H.R. 1865 "The further Consolidated Appropriations Act of 2020," the Cadillac Tax was fully repealed and will never take effect.

What is the Cadillac Tax?

The Cadillac tax is a 40 percent permanent annual deductible tax on employers that provide high-cost benefits through an employer-sponsored group health plan. Based on changes made in January 2018, the effective date has been delayed until 2022.

The Consolidated Omnibus Budget Reconciliation Act (COBRA) rule determines benefits that should be taxed. This rule accounts for:

- all employer-sponsored coverage
- premiums
- flexible spending accounts
- health reimbursement accounts
- health savings accounts
- supplementary coverage
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The employer must calculate the tax and report it to the plan administrator, who pays the tax to the Internal Revenue Service.

The original proposed threshold amounts for benefits subject to the tax in 2018 were \$10,200 for self-only coverage and \$27,500 for family coverage. There are higher benefit limits (\$11,850 for self-only coverage and \$30,950 for other coverage) for retirees and for people in high risk jobs. All these amounts will be adjusted before the tax takes effect in 2022 and indexed in future years. U.S.-issued expatriate health plans, vision, dental, accident, disability and long-term health care benefits are not included in the Cadillac Tax.

Below is a comprehensive summary and outline:

On January 22, 2018, Congress passed and the President signed a two-year delay of the 40 percent excise tax on high-cost employer-sponsored health plans, also known as the "Cadillac Tax." This delay was part of a short-term federal spending bill and changes the effective date from 2020 to 2022. The tax was delayed once before through the [Consolidated Appropriations Act of 2016](#).



No regulations have been issued to date. In February and July 2015, the Internal Revenue Service (IRS) issued notices covering a number of issues concerning the Cadillac Tax, and requested comments on the possible approaches that could ultimately be incorporated into proposed regulations. While the tax was originally non-tax deductible, the December 2015 changes make it tax deductible for employers who pay it.

CADILLAC TAX	
What it is/fee duration	Permanent, annual tax beginning in 2022 on high-cost employer-sponsored health coverage.
Purposes	<ul style="list-style-type: none"> • Reduce tax preferred treatment of employer provided health care • Reduce excess health care spending by employees and employers • Help finance the expansion of health coverage under the Affordable Care Act (ACA)
Amount	<ul style="list-style-type: none"> • The tax is 40% of the cost of health coverage that exceeds predetermined threshold amounts. • Cost of coverage includes the total contributions paid by both the employer and employees, but not cost-sharing amounts such as deductibles, coinsurance and copays when care is received. • For planning purposes, the thresholds for high-cost plans are currently \$10,200 for individual coverage, and \$27,500 for family coverage. • These thresholds will be updated before the tax takes effect in 2020 and indexed for inflation in future years. • The thresholds will also be increased: <ul style="list-style-type: none"> • If the majority of covered employees are engaged in specified high-risk professions such as law enforcement and construction, and • For group demographics including age and gender. • For pre-65 retirees and individuals in high-risk professions, the threshold amounts are currently \$11,850 for individual coverage and \$30,950 for family coverage. These amounts will also be indexed before the tax takes effect.
Who calculates and pays	<ul style="list-style-type: none"> • Insured: Employers calculate and insurers pay • Self-funded: Employers calculate and "the person who administers the plan benefits" pays • HSAs and Archer MSAs: Employers calculate and employers pay
How a group health plan's cost is determined	<ul style="list-style-type: none"> • The tax is based on the total cost of each employee's coverage above the threshold amount. • The cost includes contributions toward the cost of coverage made by employers and employees.



	<ul style="list-style-type: none"> The statute states that costs of coverage will be calculated under rules similar to the rules for calculating COBRA premium.
How the tax will be paid	Forms and instructions for paying the tax are not yet available.
Tax implications	Based on the December 2015 changes, Cadillac Tax payments will be deductible for federal tax purposes.
Applicable types of coverage	<ul style="list-style-type: none"> Insured and self-insured group health plans (including behavioral, and prescription drug coverage) Wellness programs that are group health plans (most wellness programs) Health Flexible Spending Accounts (FSAs) Health Savings Accounts (HSAs), employer and employee pre-tax contributions* Health Reimbursement Accounts (HRAs)* Archer Medical Savings Accounts (MSAs), all pre-tax contributions* On-site medical clinics providing more than de minimis care* Executive Physical Programs* Pre-tax coverage for a specified disease or illness Hospital indemnity or other fixed indemnity insurance Federal/State/Local government-sponsored plans for its employees Retiree coverage Multi-employer (Taft-Hartley) plans
Excluded types of coverage	<ul style="list-style-type: none"> U.S.-issued expatriate plans for most categories of expatriates Coverage for accident only, or disability income insurance, or any combination thereof Supplemental liability insurance Liability insurance, including general liability insurance and automobile liability insurance Worker's compensation or similar insurance Automobile medical payment insurance Credit-only insurance Other insurance coverage as specified in regulations under which benefits for medical care are secondary or incidental to other insurance benefits Long Term Care Standalone dental and vision* Coverage for the military sponsored by federal, state or local governments* Employee Assistance Programs* Employee After-Tax Contributions to HSAs and MSAs*



- Coverage for a specified disease or illness and hospital indemnity or other fixed indemnity insurance if payment is not excluded from gross income

*As indicated by IRS notice issued on February 23, 2015 and subject to future regulatory clarification.

How it works: Examples based on current threshold amounts

Note: These threshold amounts will be indexed before the tax takes effect in 2022.



Self-only coverage

A \$12,000 individual plan would pay an excise tax of \$720 per covered employee:

\$12,000 - \$10,200 = \$1,800 above the \$10,200 threshold

\$1,800 x 40% = \$720



Family coverage

A \$32,000 family plan would pay an excise tax of \$1,800 per covered employee:

\$32,000 - \$27,500 = \$4,500 above the \$27,500 threshold

\$4,500 x 40% = \$1,800

These charts show how the tax increases as the plan's cost increases.

Self-only coverage

Plan Cost	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000
Tax	\$320	\$720	\$1,120	\$1,520	\$1,920

Family coverage

Plan Cost	\$28,000	\$30,000	\$32,000	\$34,000	\$36,000
Tax	\$200	\$1,000	\$1,800	\$2,600	\$3,400