Legislative Brief

Health Care Reform - Cadillac Tax

December 2015

Cadillac Tax Delayed Two-Years Until 2020

Quick Facts:

- President Obama is expected to sign an Omnibus Spending Bill (Bill) following the Bill's passage in the House and Senate this week. The Bill includes a two year delay on the imposition of the Cadillac Tax, which was scheduled to go into effect for taxable years beginning after December 31, 2017.
- Employers and Plan Sponsors should continue to monitor and evaluate the types of health benefits offered and the costs associated with those benefits, as the 40% excise tax may be imposed in taxable years beginning in January 2020.
- Other changes to ACA-related provisions that are part of the Bill include: a two-year suspension (2016 and 2017) of the 2.3% medical device tax (a tax often passed on to health care purchasers through increased prices); and a one-year suspension (2017) of the tax on health insurers (another tax often passed on to health care purchasers, including employers sponsoring health plans and participating in multiemployer health funds).

Background

Originally scheduled to take effect in 2018, the Affordable Care Act (ACA) established an excise tax on any excess benefit of the aggregate cost of the applicable coverage of the employee for the month over the applicable dollar limit for the employee for the month under Section 4980I of the Internal Revenue Code. This excise tax is commonly referred to as the "Cadillac Tax". The impact of this excise tax has been debated since its inception. Opponents have requested the repeal of this tax. The Internal Revenue Service recently published guidance seeking additional input from taxpayers to determine how costs would be determined and which plans would be impacted.

The Cadillac Tax is a 40% non-deductible excise tax on the cost of health coverage that exceeds predetermined threshold amounts that are adjusted annually for cost-of-living (for 2018, these amounts were set at $10,200 for self-only coverage and $27,500 for other-than self-only (family) coverage). The applicable dollar limit applies on a monthly basis.

Current Legislation

The House and Senate passed an Omnibus Spending Bill this week that President Obama is expected to sign. One of the many provisions is a two-year delay of the much debated Cadillac Tax until 2020. This delay will provide employers and plan sponsors more time to evaluate the cost of the health benefits that their plans currently provide. This delay will also provide legislators time to create other methods to generate revenues that the Cadillac Tax was designed to fund. Many believed and lobbied for this provision to be repealed, but at this juncture the delay is certain.

During this two year delay, employers and plan sponsors are encouraged to continue their evaluation of costs associated with and the benefits offered under their benefit plans.

If you have any questions regarding the Cadillac Tax, please contact your Client Executive.

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