



AMERICAN BENEFITS COUNCIL

40 PERCENT TAX ON HEALTH BENEFITS

BACKGROUND

As established under the Patient Protection and Affordable Care Act (PPACA), the 40 percent tax on health benefits (the so-called “Cadillac Tax”) applies to “applicable employer-sponsored coverage” in excess of statutory thresholds. Effective in 2020, the tax is equal to 40 percent of the aggregate value in excess of the annual threshold.

The tax was implemented as a “revenue raiser” to pay for other provisions of PPACA and to address perceived over-consumption of health care coverage. In March 2015, the Congressional Budget Office and Joint Committee on Taxation estimated the tax would raise federal revenues by \$87 billion over ten years – of this, only 25 percent of the revenue generated by the 40 percent tax will be a result of employers actually paying the tax because they offer coverage above the thresholds. The other 75 percent is expected to result from employers decreasing health benefits coverage and increasing employee cost-sharing to avoid triggering the tax. The estimate assumes employers will raise taxable wages by the same amount they are decreasing health benefits, thus increasing federal revenues.

TALKING POINTS

- The 40 percent tax enacted as part of PPACA is fundamentally flawed and must be repealed.
- Until it is repealed, however, we are urging the Treasury Department to proceed with rulemaking in a way that minimizes the inevitable disruption to employer-sponsored health coverage.
- The health care law was expressly designed to build upon the employer-sponsored benefits system, which provides great value to American workers and families.

- Instead, the tax will wreak havoc on the employer coverage that over 150 million Americans have and want to keep – the tax is already resulting in decreased benefits and increased cost-sharing.
- Research estimates that, in 2018, more than one-third of employer-sponsored plans will trigger the tax unless the value of those plans is significantly reduced.
- The even greater long-term concern is that because the 40 tax thresholds are indexed to regular inflation -- rather than medical inflation, which typically grows twice as fast as regular inflation -- eventually even plans that only meet the *minimum value* required by the employer mandate will cross the thresholds.
- Employers should not – and cannot – be put in the untenable position of having to choose between offering qualifying coverage under the employer mandate and avoiding the 40 percent tax.
- The Council will continue to support bipartisan initiatives to repeal the law, such as:
 - The Middle Class Health Benefits Tax Repeal Act (S. 2045), sponsored by Senators Dean Heller (R-NV) and Martin Heinrich (D-NM)
 - The American Worker Health Care Tax Relief Act (S. 2075), sponsored by Senator Sherrod Brown (D-OH)
 - The Middle Class Health Benefits Tax Repeal Act (H.R. 2050), sponsored by Rep. Joe Courtney (D-CT)
 - The Ax the Tax on Middle Class Americans' Health Plans Act (H.R. 879), sponsored by Representative Frank Guinta (R-NH)
- The Council believes the actual amount of revenue raised as a result of implementing the 40 percent tax will be much lower than the amount estimated by either the Congressional Budget Office or the Joint Committee on Taxation. The Council asked its members if they anticipate increasing employee wages by the same amount if they decrease health benefits as a result of the 40 percent tax.
 - Fully 84 percent of survey respondents indicated that they do *not* anticipate increasing wages as a result of decreased health benefits.
 - Only 11 percent answered “possibly” with respect to the question of whether they anticipate increasing wages to reflect decreased health benefits, and no respondents answered “yes.”