Overview

On January 22, 2018, Congress passed and the President signed a two-year delay of the 40% 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.

<table>
<thead>
<tr>
<th>CADILLAC TAX</th>
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<tbody>
<tr>
<td><strong>What it is/fee duration</strong></td>
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<tr>
<td><strong>Purposes</strong></td>
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<td><strong>Amount</strong></td>
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| **Who calculates and pays** | 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** | 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.  
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** | 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** | 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:

\[
\text{\$12,000} - \text{\$10,200} = \text{\$1,800 above the \$10,200 threshold} \\
\text{\$1,800} \times 40\% = \text{\$720}
\]

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

\[
\text{\$32,000} - \text{\$27,500} = \text{\$4,500 above the \$27,500 threshold} \\
\text{\$4,500} \times 40\% = \text{\$1,800}
\]

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

### Self-only coverage

<table>
<thead>
<tr>
<th>Plan Cost</th>
<th>$11,000</th>
<th>$12,000</th>
<th>$13,000</th>
<th>$14,000</th>
<th>$15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>$320</td>
<td>$720</td>
<td>$1,120</td>
<td>$1,520</td>
<td>$1,920</td>
</tr>
</tbody>
</table>

### Family coverage

<table>
<thead>
<tr>
<th>Plan Cost</th>
<th>$28,000</th>
<th>$30,000</th>
<th>$32,000</th>
<th>$34,000</th>
<th>$36,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>$200</td>
<td>$1,000</td>
<td>$1,800</td>
<td>$2,600</td>
<td>$3,400</td>
</tr>
</tbody>
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