The Cadillac Tax

Frequently asked questions and answers about the Affordable Care Act’s excise tax

Named after America’s luxury automobile, a 40 percent “Cadillac Tax” is scheduled to take effect for applicable coverage on January 1, 2020. Although the tax is still several years away and regulations may evolve before it is implemented, employers can begin to determine how their plans may be affected when the tax goes into effect. Below are common questions and answers about the tax and its potential effect on businesses.

Q: How is the tax calculated?
A: The tax is calculated based on premiums spent on “applicable employer-sponsored coverage.” In 2020, the 40 percent tax is applied to the value of an employer’s plan that exceeds the thresholds of $10,200 for individual coverage and $27,500 for coverage other than individual. These thresholds will increase in future years since they are indexed for inflation.

Q: What products are included in the calculation?
A: The tax applies to pretax group employer-sponsored coverage, including employer- and employee-paid portions. This includes:

- Health coverage, including medical, behavioral and prescription drug.
- Health flexible spending accounts (FSAs).
- Health savings accounts (HSAs).
- Archer Medical Savings Accounts (MSAs).
- Governmental plans, with the exception of military coverage.
- On-site medical clinics, with exception of clinics that provide minimal medical care.
- Retiree coverage.
- Multiemployer plans.
- Specified disease or illness and hospital indemnity or other fixed indemnity insurance only when any portion of the premium is paid pretax or by the employer.
Q: What products are excluded from the tax calculation?
A: The following insurance products are not factored into the tax:

» Accident insurance
» Disability insurance
» Life insurance
» Supplemental liability insurance
» Liability insurance, including general and automobile liability insurance
» Workers’ compensation or similar insurance
» Automobile medical payment insurance
» Credit-only insurance
» Stand-alone Vision
» Stand-alone Dental
» Specified Disease and Hospital Fixed Indemnity are excluded if not sponsored by the employer and paid for on an after-tax basis.

Q: Are there any Aflac products that could be included in the calculation?
A: Aflac’s voluntary insurance products are defined as excepted benefits, which are excluded from most of the Affordable Care Act (ACA)’s market reforms. In the case of the Cadillac Tax, most of Aflac products are entirely excluded from the tax. Two types of coverage (specified disease, such as cancer coverage, and hospital indemnity) are excluded only if the products are paid for with after-tax dollars. These two products are, however, included in the tax if paid for by the employer or with pre-tax dollars, such as through a cafeteria plan or with excludable employer contributions.

Q: Who is responsible for paying the tax?
A: The tax is technically paid by the insurance provider or carrier. If there is more than one carrier, each carrier pays the percentage of the excise tax commensurate with their percentage of the total premiums. And if a group is self-insured, then they are responsible for their portion of the tax based on the self-insured premiums.

The details surrounding how the tax is reported and paid are awaiting clarification and final regulations, but since the tax is based on their employees’ total benefits packages, employers are currently responsible for calculating the tax and reporting each benefits administrator’s portion of the tax to the IRS. Employers, not benefits providers, may be penalized for incorrectly calculating the tax.

Q: Will my plan be affected?
A: Since the tax is still several years away, there’s a real possibility that the scope, application and timeframe may change. For now, it’s estimated that approximately 16 percent of all plans could be affected by the excise tax when it takes effect. The tax thresholds are linked to inflation, and medical spending and premiums historically grow faster than inflation, so eventually more plans will likely be affected. As the law stands, 75 percent of plans could be influenced by the tax within a decade.1
Q: What can my company do now?

A: Employers do not need to make changes to their policies in anticipation of the tax just yet. Employers can begin to assess their current health plans and talk to their benefits providers or brokers about solutions to manage health plan costs.

Example Cadillac Tax calculation in 2020

Employee A has the following benefits package that is individual coverage, paid for on a pretax basis. In this example, the accident product would be excluded from the applicable premiums, and the cancer policy is excluded because it is being purchased on an after-tax basis.

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Carrier</th>
<th>Annual Premiums</th>
<th>Cadillac Tax Applicable Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major medical</td>
<td>Carrier X</td>
<td>$10,500</td>
<td>$10,500</td>
</tr>
<tr>
<td>Voluntary accident policy</td>
<td>Aflac</td>
<td>$500</td>
<td>$0</td>
</tr>
<tr>
<td>Voluntary cancer policy purchased after tax</td>
<td>Aflac</td>
<td>$700</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$11,700</strong></td>
<td><strong>$10,500</strong></td>
</tr>
</tbody>
</table>

Total Applicable Premiums $10,500.00

Annual Limit $10,200.00

Taxable premiums $300.00

The excise tax will be 40 percent of $300, or $120. Each carrier’s responsibility for the tax is as follows:

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Percent of applicable premiums</th>
<th>Calculation</th>
<th>Excise tax due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier X</td>
<td>$10,500/$10,500 = 100 percent</td>
<td>$120 x 100 percent</td>
<td>$120</td>
</tr>
<tr>
<td>Aflac</td>
<td>$0/$10,500 = 0 percent</td>
<td>$120 x 0 percent</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$120</strong></td>
</tr>
</tbody>
</table>


Source


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