San Diego Regional Chamber

POLICY BRIEF

SEPTEMBER 2015

40% TAX ON EMPLOYEE HEALTH CARE BENEFITS, THE "CADILLAC TAX"

POSITION

On September 24, 2015, the Chamber's Board of Directors voted to OPPOSE the 40% tax on employee health care benefits, also referred to as "the Cadillac tax," and to work with federal partners to identify appropriate "fixes."

STATUS*: *The Cadillac tax is scheduled for implementation in 2018, however various legislative vehicles have been proposed to amend or repeal the tax.

SUMMARY

Per the Affordable Care Act (ACA), a 40% non-deductible excise tax on employer-sponsored coverage that exceeds a specific threshold was scheduled for implementation in 2018. While this was initially included in the ACA as a funding mechanism for high-level coverage provided by employers, certain issues have arisen.

ANALYSIS

In a recent poll, 49% of large employers have indicated that at least one of the plans they offer will reach the 2018 threshold for the Cadillac tax. Consequently, many employers have redesigned their coverage options to avoid or delay hitting the threshold that would subject them to the tax. This has the unintended consequence of raising less money to support ACA and reducing coverage for employees that will also have out of pocket expenses go up. In fact, the Congressional Budget Office (CBO) originally estimated that the tax would produce approximately $87 billion but has already reduced the projected revenue to $69 billion and that number will most likely continue to drop.

The excise tax is linked to the consumer price index as opposed to medical inflation which results in the large majority of employer-offered plans hitting the threshold at some point regardless of their level of coverage. Depending on the actual implementation, over a quarter of employers (and then their employees) could face the tax in the first year, and that is expected to increase to 40% over the next decade.

As the 2018 implementation date grows closer, there has been an increasing amount of support for a repeal, or at the very least a significant amendment that would make the tax more palatable for business and sustainable in the future.

Overview:

Per the Affordable Care Act (ACA), a 40% non-deductible excise tax on employer-sponsored coverage that exceeds a specific threshold was scheduled for implementation in 2018. While this was initially included in the ACA as a funding mechanism for high-level coverage provided by employers, certain issues have arisen.

This tax, aka the "Cadillac Tax" will have a sweeping impact on employers, resulting in reduced coverage and reduced revenue raised.

The tax should, at the very least, be revised if not totally repealed to allow for coverage to remain and stall the significant unintended consequences currently posed for implementation in 2018.