CONNER ASH P.C.
Certified Public Accountants
and Business Consultants

12101 Woodcrest Executive Dr., Ste. 300
St. Louis, MO 63141-5047
Tel: 314-205-2510
Fax: 314-205-2505
www.connerash.com

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CADILLAC TAX ON HEALTH INSURANCE COVERAGE

By: ANDREA SCHAEFER, CPA

The Cadillac tax is an excise tax on high-cost employer sponsored health insurance. The tax is called the Cadillac tax because it affects upper-end employer sponsored insurance coverage. Beginning in 2018, a 40% excise tax will apply to individual health plans that cost more than $10,200 and family health plans that cost more than $27,500. The Cadillac tax will be imposed on the coverage provider, typically the health insurance provider or the entity that administers the plan benefits.

The Cadillac tax is aimed at providing financial support for the costs of the Affordable Care Act (such as premium subsidies to help lower-income individuals purchase health insurance) and at reducing expenditures on health care. The thought is that insured individuals spend more on medical care than they would without health insurance.

The Congressional Research Service (CRS) has issued a report that evaluates how the Cadillac tax will affect health insurance coverage and the health care market. The CRS report says that third-party insurers could pass along the direct cost of the tax to consumers. Employers that choose to maintain health plans that are subject to the Cadillac tax are likely to pass these added costs to the employees by reducing wages. Alternatively, employers might respond by reducing insurance coverage and raising employees' wages. These higher wages would be subject to income and payroll taxes. Either way, the burden from the tax would be expected to fall on workers.