“Cadillac Tax” on Health Plans Delayed Until 2020

Labor & Employment Law Update

By Kelly Haab-Tallitsch on December 23, 2015

Employers are receiving a temporary reprieve from the controversial “Cadillac Tax” on health plans as part of a large spending and tax bill signed into law by President Obama on Friday, December 18, 2015. The Consolidated Appropriations Act (the “Act”) delays the effective date of the Affordable Care Act’s (ACA’s) excise tax on so-called high cost health plans, known as the “Cadillac Tax,” until January 1, 2020.

The Cadillac Tax, previously scheduled to take effect on January 1, 2018, is a 40% excise tax on employers and insurers who offer health insurance plans that exceed specified high-cost limits ($10,200 for individuals and $27,000 for families for 2018). The 40% tax applies to the cost of the plan above these thresholds.

In addition to the delay, the Act makes the Cadillac Tax a tax-deductible expense for employers, somewhat cushioning its impact. The Act also calls for an examination of suitable benchmarks to be used for the adjustment of the excise tax thresholds in future years.

The delay comes after mounting criticism of the Cadillac Tax from employers, insurers, labor unions and lawmakers. Critics argue that the tax, which was expected to affect an estimated 25% to 30% of employers in 2018, and as many as 50% within the next 10 years, unfairly penalizes employers and unionized workers and will ultimately lead to employees paying more out of pocket for medical expenses.

What Does this Mean for Employers?

While opponents of the Cadillac Tax are citing the delay as the first step towards a repeal of the tax, employers must remain cautious and plan for the tax to be implemented in 2020. Employers should continue evaluating the costs of the health coverage offered to their employees and begin to consider alternatives to reduce exposure to the tax in 2020. Additionally, employers should review the accounting consequences of the now deductible Cadillac Tax.