

Overview

Since the passage of the Affordable Care Act (ACA) in 2010, Congress has delayed, reinstated, and in some cases attempted to repeal altogether three main taxes written into the law: the health insurance tax (HIT), the so-called cadillac tax, and the medical device tax. In order to keep track, this Basic provides an update on where each tax stands heading into the 2020 plan year.

Health Insurance Tax (HIT)

Established by Section 9010 of the Patient Protection and Affordable Care Act, the health insurance providers fee, better known as the “health insurance tax,” is an annual fee charged to insurance companies providing health policy premiums. The fee applies to individual policies, small groups, fully-insured employers, Medicaid managed care, Medicare Part D, and Medicare Advantage.

While some exclusions exist as it relates to the HIT being assessed to health insurance providers, the “fee” is specified by the ACA to be handled as a tax. As a tax, the fees are non-deductible for federal income tax purposes, which means insurers typically pass these costs on to consumers to make up the difference in the form of premium increases.

Each year, the fee is divided among health insurers based on their market share and their dollar value of business. The U.S. began collecting health insurance provider fees in 2014 totaling \$8 billion and collected \$11.3 billion in 2015 and 2016. Congress voted in a bipartisan fashion to enact a moratorium on the tax for 2017, but the tax returned in 2018 for \$14.3 billion. After premium increases struck consumers in 2018, Congress voted again to suspend the tax for the 2019 calendar year.

Last month, the IRS announced it will collect \$15.5 billion in provider fees in 2020 absent Congressional action to delay the tax again. In terms of premiums, one 2018 analysis estimates insurance premiums will rise by more than 2 percent. For example, that would amount to an annual increase of \$154 for an individual and \$479 for a family in the small group market.

Should the tax be implemented as planned, over the next ten years, estimates suggest total premium increases from \$2,473 per person in the individual market to \$5,824 per family in the small group market; and \$3,052 for Medicare Advantage members and \$1,988 for Medicaid managed care enrollees. The Congressional Budget Office (CBO) projects revenues from the tax to reach \$25 billion by 2029. More information on the HIT can be found [HERE](#).

Cadillac Tax

Established by the ACA, the so-called cadillac tax is an excise tax of 40 percent levied on employer-sponsored health benefits whose value exceeds certain thresholds. While originally scheduled to take effect in 2018, Congress has twice delayed its implementation. It is currently scheduled to take effect in 2022 and will equal 40 percent of the value of benefits exceeding the projected threshold of \$11,200 for single coverage and \$30,150 for family coverage. After that, the thresholds are to be indexed to growth in the consumer price index.

Center Forward Basics

Center Forward brings together members of Congress, not-for-profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org

HIT Timeline

2010	HIT included in the ACA
2014	Tax takes effect; IRS collects \$8 billion
2015-2016	IRS collects \$11.3 billion in fees
2017	Moratorium in place; IRS does not collect fees
2018	Tax returns; IRS collects \$14.3 billion in fees
2019	Congress enacts another moratorium, IRS does not collect HIT fees
2020	IRS will collect \$15.5 billion in fees absent Congressional action

Cadillac Tax Timeline

2010	So-called cadillac tax included in the ACA
2015	Congress delays the tax with a 2-year moratorium. Instead of beginning in 2018, the tax was delayed until 2020
2018	Tax supposed to take effect; Congress again delays its implementation until 2022
2019	House votes nearly unanimously to repeal the tax altogether and the bill advances to the Senate
2022	Tax will take effect absent Congressional intervention

Medical Device Tax Timeline

2010	Tax on medical devices included in the ACA
2013	Tax takes effect from 2013-2015
2015	Tax delayed with a 2-year moratorium for 2016-2017
2018	Congress again delayed the tax with a 2-year moratorium for 2018-2019
2020	Tax will take effect without Congressional action

Health Care Glossary

A full glossary of common health care terms can be found [HERE](#).

In addition to employers' and employees' contributions to health plan premiums, the tax is also meant to apply to health savings accounts, health reimbursement arrangements, and flexible spending accounts.

The tax was originally included in the ACA to subsidize the most expensive parts of the law as well as discourage potentially unnecessary medical care that can drive up costs across the system; however, Congress has repeatedly delayed the tax because of its anticipated effect on employees. Labor unions, businesses, and patient advocates have argued that employers fight to remain under the threshold for the impending tax; and therefore, employees are the ones that bear the cost with less generous health benefits.

In July, the House voted 419-6 to repeal the tax entirely and the companion bill in the Senate has more than enough support for passage. The CBO projects the federal deficit to take a \$197 billion hit through 2029 with the repeal of the tax and health economists worry repeal will increase healthcare costs long-term; however, proponents of repeal argue patients are already being crushed by their health expenses and repealing the tax would provide much-needed relief. Supporters of the tax have long argued that it targets the wealthiest workers with the highest-cost plans, but analyses have shown that employers across the spectrum would modify their coverage options to avoid the tax by offering lower-cost plans or raising deductibles.

Medical Device Tax

The medical device excise tax was established by the ACA to levy a 2.3 percent tax on manufacturers for the sale price of certain medical devices. The tax went into effect in 2013 but Congress included a moratorium on the tax in the fiscal year 2016 end-of-year appropriations package to delay its implementation for two years. Congress again voted to delay the tax for 2019, but it is currently scheduled to take effect again on Jan. 1, 2020.

Like the cadillac tax, the medical device tax was included in the ACA to act as a pay-for for more expensive pieces of the bill; however, Congress worries the tax will stifle innovation and hurt employment in the industry. The tax applies to a range of products typically found in medical settings, such as pacemakers and artificial joints, but does not apply to items consumers typically purchase such as hearing aids or wheelchairs.

The House passed the *Protect Medical Innovation Act* in 2018 to permanently repeal the tax, but the bill did not make it through the Senate. The bill has reemerged in the 116th Congress and has garnered nearly 250 bipartisan cosponsors in addition to its companion legislation in the Senate with bipartisan support.

Looking Ahead

Without Congressional intervention before the end of 2019, the HIT and the medical device tax will take effect on Jan. 1, 2020. There are efforts to delay each underway in Congress, and if history is any indication, action on either or both will be included in an end-of-year spending package.

The cadillac tax is not scheduled to take effect until 2022, but with such broad bipartisan, bicameral support for a repeal, Congress may act to repeal the tax altogether.

Additional Resources

[Brookings: Medical Device Tax Primer](#)

[Center Forward: Health Insurance Tax](#)

[CBO: Budget and Economic Outlook 2019-2029](#)

[H.R. 2207 - Protect Medical Innovation Act](#)

[IRS: Medical Device Excise Tax](#)

[Modern Healthcare: ACA Tax \\$15.5B in 2020](#)

[NPR: Cadillac Tax Headed for Repeal](#)

[NYT: House Votes to Repeal Obamacare Tax](#)

[Oliver Wyman Health: How ACA's HIT Will Impact 2020 Premiums](#)

[S.692 - Protect Medical Innovation Act](#)

[Tax Policy Center: What is the Cadillac Tax?](#)