Cadillac Tax

As originally written, the Affordable Care Act imposed an excise tax on high cost employer-sponsored health coverage. The tax was commonly referred to as the "Cadillac tax" and is governed by Internal Revenue Code (Code) Section 4980I.

However, on Dec. 20, 2019, President Trump signed a spending bill into law that **repealed the Cadillac tax, effective beginning in 2020**. Due to several delays, the Cadillac tax provision had not taken effect prior to 2020. As a result, **taxpayers will not be responsible for calculating or paying the Cadillac tax at any point**.

Basics

The Cadillac tax would have been imposed if:

1. An employee was covered under any **"applicable employer-sponsored coverage"** at any time during a taxable period, **and**
2. There was any **excess benefit** with respect to the coverage.

The tax was equal to **40%** of the excess benefit.

Applicable Employer-Sponsored Health Coverage

For this purpose, "applicable employer-sponsored coverage" generally meant, with respect to any employee (which includes any former employee, surviving spouse or other primary insured individual), coverage under any group health plan made available to the employee by an employer which is excludable from the employee's gross income.

Note: Coverage would be treated as "applicable employer-sponsored coverage" without regard to whether the employer or employee pays for the coverage.

Among others, the following types of coverage were **not included** in the definition of "applicable employer-sponsored coverage":

- Coverage only for accident, or disability income insurance, or any combination thereof;
- Workers' compensation or similar insurance;
- Automobile medical payment insurance;
- Long-term care coverage; or
- Other similar insurance coverage, specified in regulations, under which benefits for medical care are secondary or incidental to other insurance benefits.

Excess Benefit

For purposes of the Cadillac tax, the cost of plan benefits generally could not be more than **$10,200 for self-only coverage and $27,500 for family coverage**, with exceptions for certain types of coverage.

Exceptions
The amount was **increased by $1,650 for individual coverage and $3,450 for family coverage** for:

- **Qualified retirees**; and

- Participants in employer-sponsored plans where the majority of employees covered by the plan are engaged in a **high-risk profession** or are employed to repair or install **electrical or telecommunications lines**.

Liability for Paying the Tax

The Cadillac tax would have been imposed on each coverage provider for its share of the excess coverage.

- If the employer-sponsored coverage is health coverage under an insured group health plan, **the health insurance issuer** would have been liable to pay the tax.
- **Employers** would have been liable for excess coverage in the form of their contributions to an Archer MSA or a health savings account (HSA).
- For any other applicable employer-sponsored coverage, the "**person that administers the plan benefits**" would have been required to pay the tax.

Responsibility for Calculating the Tax

Each employer generally would have been responsible for:

1. **Calculating** the excess benefit and each coverage provider's applicable share for each taxable period, and
2. **Notifying** the Treasury Secretary and each coverage provider of that excess amount.

In the case of applicable employer-sponsored coverage made available to employees through a multiemployer plan, the plan sponsor would have been required to make the required calculations and provide the notice.

Note that employers or plan sponsors could have been penalized if they undervalued the insurance cost subject to the Cadillac tax.