



FACT SHEET

Health Care Taxes

Health Care Excise Tax

Beginning in 2020, a 40 percent excise tax on the cost of employer-based health insurance that exceeds certain amounts – generally \$10,200 for individual coverage and \$27,500 for family coverage – will go into effect. This provision is often referred to as a “Cadillac Tax,” implying that the policy would touch only high-end and overly-generous health plans. In reality, however, this tax will have an indiscriminate impact on a broad range of individuals and families who, for reasons they cannot control, have health plans that already or soon will reach the policy’s cost thresholds.

This Tax is likely to hit plans based on factors other than generosity of benefits.

- The Congressional Budget Office (CBO) predicts that many employers facing the health benefits tax will simply drop coverage, and that millions of workers will have to seek other forms of coverage while some go uninsured.
- Research has found that the health benefits tax will fall predominantly on middle class families while largely sparing the wealthy.
- As health insurance premiums continue to rise, the health benefits tax will force employers offering coverage to choose between paying the tax and increasing out-of-pocket costs for their workers.
- The excise tax will lead to workers paying thousands of dollars in new out-of-pocket costs. CBO predicts that the vast majority of employers are expected to shift costs to their workers by increasing deductibles, co-pays, co-insurance and maximum out-of-pocket limits to avoid paying the tax.
- Workers’ out-of-pocket costs have already been increasing rapidly. For example, from 2011 - 2016, deductibles for single coverage increased nearly six times faster than workers’ earnings. The average single deductible for employment-based coverage was \$1,221 in 2016. (Kaiser Family Foundation.)
- Research shows that people forgo essential and nonessential services in equal amounts when cost sharing requirements are increased. When people forgo needed treatment, their use of emergency department and hospital services increases.

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Most of the projected revenue generated is from Taxable Wages not the Excise Tax. While the Congressional Budget Office has estimated that this provision will generate \$104 billion over ten years, notably it estimates that only one-fourth of this total - \$26 billion - comes directly from excise tax receipts. The remaining three-quarters would be generated from the theoretical increase in taxable wages that economists expect would be coupled with reductions in health care benefits.

Employer-Sponsored Health Insurance Tax

For more than 70 years, American employers and employees have benefitted from health benefits that are exempt from income and payroll taxes. As a result of the current tax exclusion on health benefits, employer-sponsored insurance (ESI) is the most common source of health care coverage for nonelderly Americans. Today, 178 million American workers and their family members receive their health insurance coverage through an employer.

One proposal in health care reform discussions includes a new tax on workers' health benefits. According to the CBO, a tax exclusion cap will cause employers to drop their health coverage, leaving workers that don't have access to other insurance uninsured. CBO estimated that 2-4 million workers would be dropped from workplace coverage under such a cap. CBO also finds that employers are expected to shift costs to their workers by increasing out-of-pocket costs for workers. Employers would raise deductibles, co-pays, and co-insurance requirements and reduce maximum out-of-pocket limits to avoid paying the tax.

This tax will hit workers directly. They will see the payroll tax hit on their pay stubs and face extra reporting on their income tax forms. CBO estimates that workers' payroll and income tax liability will increase as much as \$3,860 (if the cap were set at the average premium cost).

Boilermakers' Message to Senators and Representatives:

- Co-sponsor and vote for S. 58 **and** H.R. 173, *The Middle Class Health Benefits Tax Repeal Act of 2017* to repeal Section 4980I of Chapter 43 of the Internal Revenue Code, the excise tax on high-cost health plans and make conforming and clerical changes in tax code to reflect repeal of this section.
- Reject *any* proposal that would adversely affect the tax exclusion for employer-provided health care.