



Health Care Reform **Bulletin**

2016 Federal Budget Delays ACA's Cadillac Tax & Suspends Two Other Taxes

Provided by Brown & Brown Benefit Advisors

Quick Facts

- On Dec. 18, 2015, President Barack Obama signed a federal budget bill for 2016 into law, which makes significant changes to three ACA taxes.
- The provisions affecting the ACA taxes took effect immediately on Dec. 18, 2015.
- The new law delays the Cadillac tax for two years, and temporarily suspends collection of the providers fee and the medical devices tax.
- The new federal budget does not affect any other ACA provisions.

The new federal budget for 2016 delays implementation of the ACA's Cadillac tax on high-cost group health coverage for two years, until 2020.

On Dec. 18, 2015, President Barack Obama signed a [federal budget bill for 2016](#) into law, which makes significant changes to three tax provisions under the Affordable Care Act (ACA). This new law:

1. **Delays implementation of the ACA's Cadillac tax** on high-cost group health coverage for two years, until 2020;
2. **Imposes a one-year moratorium on the collection of the ACA's health insurance providers fee**, for 2017; and
3. **Imposes a two-year moratorium on the ACA's medical device excise tax**, for 2016 and 2017.

The provisions affecting these ACA taxes took effect immediately, once the bill was enacted.

Cadillac Tax Delayed

The ACA imposes a 40 percent excise tax on high-cost group health coverage, also known as the "Cadillac tax." This tax is intended to encourage companies to choose lower-cost health plans for their employees, but also to raise revenue to fund other ACA provisions.

This provision taxes the amount, if any, by which the monthly cost of an employee's

applicable employer-sponsored health coverage exceeds the annual limitation (called the employee's excess benefit). The tax amount for each employee's coverage will be **calculated by the employer and paid by the coverage provider** who provided the coverage.

Although originally intended to take effect in 2013, the Cadillac tax was immediately delayed until 2018 following the ACA's enactment. The new 2016 federal budget **further delays implementation of this tax for an additional two years, until 2020.**

The new law also:

- Removes a provision prohibiting the Cadillac tax from being deducted as a business expense; and
- Requires a study to be conducted on the age and gender adjustment to the annual limit.

There is some indication that this additional delay will lead to an eventual repeal of the Cadillac tax provision altogether. However, while several bills have been introduced into Congress to repeal this tax, President Obama has indicated that he will veto legislation repealing any ACA provision.

Moratorium on the Providers Fee

Beginning in 2014, the ACA imposes an annual, non-deductible fee on the health insurance sector, allocated across the industry according to market share. This health insurance providers fee, which is treated as an excise tax, is required to be paid by Sept. 30 of each calendar year. Thus, the first fees were due Sept. 30, 2014.

The new 2016 federal budget suspends collection of the health insurance providers fee for the 2017 calendar year. **Thus, health insurance issuers are not required to pay these fees for 2017.**

Employers are not directly subject to the health insurance providers fee. However, in many instances, providers of insured plans have been passing the cost of the fee on to the employers sponsoring that coverage. As a result, this one-year moratorium may result in significant savings for some employers on their health insurance rates.

Moratorium on the Medical Devices Tax

The ACA also imposes a 2.3 percent excise tax on the sales price of certain medical devices, effective beginning in 2013. Generally, the manufacturer or importer of a taxable medical device is responsible for reporting and paying this tax to the IRS.

The new 2016 federal budget suspends collection of the medical devices tax for two years, in 2016 and 2017. **As a result, this tax will not apply to sales made between Jan. 1, 2016, and Dec. 31, 2017.**

The Effect on Other ACA Provisions

Although this new federal budget makes significant changes to these three ACA taxes, it does not affect any other ACA provision. Therefore, all other aspects of the ACA continue to apply as they did prior to this law's enactment, with no changes or delays.

