

Excise Tax on High Cost Employer-Sponsored Health Coverage

Main Components

- Effective January 1, 2018
- Coverage thresholds:
 - \$10,200 for individuals
 - \$27,500 for families (2-party and 3-party+)
- 40% tax applies to:
 - Aggregate cost of applicable coverage above threshold
 - Actual employee coverage, not lowest cost plan offered by employer
- Tax is non-deductible

Applicable Coverage (subject to the excise tax)

- Employee and employer contributions toward health premiums
- Pre-tax contributions made by employees and employers toward a:
 - Flexible Health Spending Account (FSA)
 - Health Savings Account (HSA)
 - Health Reimbursement Arrangement (HRA)
 - Archer Medical Savings Account (MSA)

Applicable Coverage (continued)

- Retiree coverage
- Governmental plans
- Multi-employer plan coverage
- Executive physical programs
- Specified disease or fixed indemnity coverage
(if tax deductible)

What is NOT Applicable Coverage

- After-tax health account contributions made by employees and employers
- Long-term care insurance
- Stand-alone dental and vision policies
- Excepted benefits, such as:
 - Workers' compensation
 - Supplemental liability insurance
 - Accident-only or disability income insurance

Employer Mitigation Strategies

- Change health benefit design
 - Increase copays and coinsurance
- Offer high deductible health plans only
- Limit or discontinue employee health savings/spending accounts

Employer Mitigation Strategies (continued)

- Offer PPO plans only
- Offer plans with lower actuarial value
- Discontinue offering health coverage and pay ACA employer shared responsibility penalty fee

Calculation

- Employers calculate each coverage provider's share of excess benefit (potential penalty for incorrect calculation)
- Calculation based on ratio of the cost of applicable coverage for each employer-sponsored benefit to the total cost of coverage
- Coverage provider could face tax even if their portion does not exceed limit

Second Request for Comments

- On July 30, 2015, IRS issued Notice 2015-52, requesting comments
- Notice addresses additional issues, including:
 - Applicable taxpayer liability for tax
 - Employer aggregation
 - Allocation of responsibility for tax
 - Payment of tax
 - Age and gender adjustments

Questions?