

Cadillac Tax

Effective for taxable years beginning after December 31, 2017, an excise tax will be imposed on high cost employer-sponsored health coverage. The tax is commonly referred to as the “cadillac tax” and is governed by Internal Revenue Code (IRC) section 4980I.

Basics

The cadillac tax is imposed if:

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

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

Applicable Employer-Sponsored Health Coverage

“Applicable employer-sponsored coverage” generally means, 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.

Excess Benefit

The cost of plan benefits generally cannot be above the threshold of **\$10,200 for self-only coverage and \$27,500 for family coverage**, with exceptions for certain types of coverage.

Exceptions

The threshold amount is **increased by \$1,650 for individual coverage** and \$3,450 for family coverage in the case of an individual who:

- » Is a **qualified retiree**; or
- » Participates in an employer-sponsored plan 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 to Pay the Tax

The cadillac tax is imposed proportionately on each coverage provider:

- » If the employer-sponsored coverage consists of health coverage under a group health plan, **the health insurance issuer** is liable to pay the tax.
- » If the employer-sponsored coverage consists of employer contributions to an Archer MSA or a health savings account (HSA), **the employer** is liable to pay the tax.
- » In the case of any other applicable employer-sponsored coverage, **the plan administrator** is liable to pay the tax.

Responsibility to Calculate the Tax

Each employer generally must:

1. **Calculate** the excess benefit for each taxable period and the applicable share of such excess benefit for each coverage provider, and
2. **Notify** the Secretary of Treasury and each coverage provider of the amount so determined for the provider, at such time and in such manner as the Secretary may prescribe.

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

Note that employers or plan sponsors may be penalized if they undervalue the insurance cost subject to the cadillac tax.

Additional Information

As federal agencies have yet to issue any general guidance with respect to the cadillac tax, **employers are strongly advised to analyze the individual provisions of the law in conjunction with knowledgeable tax counsel to determine specific compliance responsibilities.**