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BENEFIT SERVICES, INC.

Excellence in Benefit Management Solutions

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Good News - Two Year Delay of ACA Cadillac Plan Tax

General Overview

The House of Representatives and Senate passed legislation, and on Friday December 18th, President Obama signed the legislation that will delay for 2 years the implementation of the excise tax on high cost health plans (which includes the value of HRAs, HSAs and Health FSAs). The Omnibus Appropriations Bill also makes the tax a deductible expense for tax purposes. The tax is commonly referred to as the Cadillac Tax.

How does this legislation help Employers?

The Cadillac Tax was scheduled to take effect in 2018. Due to the passage of the legislation, the tax is now delayed until 2020. The legislation provides employers with significant time to plan and continue the best course for their employees and related HRAs, HSAs and Health FSAs.

Specifics of What Legislation Passed?

The legislation that passed was the Omnibus Appropriations Bill of 2016 and the Protecting Americans from Tax Hikes Act of 2015 ("PATH Act"). Title I of Division P of the Omnibus Appropriations Bill contains two important provisions relating to the excise tax for high cost benefit plans.

1. Delay of 2 years to the effective date of the Cadillac Tax.
 - Section 101 of Title I Division P of the Omnibus Appropriations Bill postpones the effective date of the excise tax by two years, meaning that the excise tax will not be effective until 2020. The dollar amount of what is considered a high cost health plan will be increased also to reflect the delay in the effective date of the excise tax.
2. Deductibility of the Excise Tax.
 - Current law provides that the excise tax paid is not deductible for tax purposes. Section 102 reverses that provision so that the payment of the excise tax will be deductible. This will mean that employers and plan administrators who are liable for the tax will be able to deduct the tax paid which will lower the cash cost of the excise tax. This will affect those situations where the employer is reimbursing the plan administrator for payment of the excise tax.

Where Can Employers Find More Information?

DBS is continuing to work on this issue to help all of our clients and employees. There has been a significant amount of time spent on trying to effectuate change to the excise tax. The 2 year delay was good news for employers and allows more time to potentially change or exclude how account based benefit plans are viewed in the calculation of the excise tax thresholds. Please watch for future DBS notices as more information becomes available.