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# Obamacare Cadillac Tax Is A Lemon, And Businesses Are Slashing Coverage To Avoid It

A survey by the International Foundation of Employee Benefit Plans reveals that 62% of companies facing a 40% Cadillac tax hit in 2018 are already changing their coverage to avoid it. Conversely, only 2.5 percent of companies say they will pay it. How do you avoid it? Change to higher deductible plans, reduce benefits, shift more costs to employees, or even drop high-cost plans altogether.

The tax is [increasingly under fire](#) from Congress, and this marketplace reaction is fueling the bonfire. If no one pays it, how else will we pay for Obamacare? The Supreme Court upheld Obamacare as a tax law, and it contains [many taxes](#). One tax that hasn't yet kicked in is the [Cadillac tax](#). In enacting the law in 2010, the Cadillac tax was buried, not applying until 2018.



As the IRS gets ready for 2018, it released guidance [setting out approaches to the excise tax](#). Like all of Obamacare, the Cadillac tax is enormously complex and nuanced. Of all the taxes in the ironically named Affordable Care Act, none is more onerous than the Cadillac tax. It is a big tax too, a whopping 40% on top of all other federal taxes. What's more, it is an excise tax, one of the

most dreaded kinds of taxes there is. It is a rifle shot tax that is supposed to discourage something very specific.

It now looks likely to apply to more people and to more plans. In that sense, it is a kind of rifle shot that has turned into a shotgun blast. You may not have noticed this tax or even heard of it. One reason is the delayed effective date, not kicking in until 2018. That delayed effective date clearly deemphasized the provision.

[The Case Against Obamacare: An eBook From Forbes](#)

[Make no mistake. The new health law has disrupted coverage for millions, and driven up costs for millions more.](#)

It targets plans that are overly generous employer-provided health care plans. That doesn't just mean for executives. In fact, it mostly appears to hit union plans. Unions often negotiate for rich benefits and may be willing to take lower cash wages as a trade-off. Unions that have negotiated for generous health benefits may now wish they hadn't.

The theory of the law is that health insurance should be the great leveler. The Affordable Care Act included the Cadillac tax as a tool to cut health care costs. It puts direct and forceful pressure on employers to offer less-generous health insurance plans. Starting in 2018, Obamacare imposes a 40% tax on the cost of individual health plans above \$10,200 for individuals and \$27,500 for family coverage.

In evaluating these dreaded thresholds, both employer and worker contributions are included. The tax is decidedly punitive. The tax applies to every dollar above those thresholds. Like a cliff, the dollars are taxed at a 40% rate. What's more, the tax is not deductible by the employer.

The Cadillac tax makes sure that more health insurance dollars are spent across a greater number of people. The tax is projected to collect \$80 billion between 2018 and 2023. However, many excise tax figures turn out not to be incorrect. Indeed, excise taxes are often enacted to discourage particular behavior. Here, a reasonable response to the Cadillac tax is likely to be cutting of health insurance, and the recent survey says that is exactly what is occurring.

Why would employers offer generous health insurance that triggers a 40% excise tax that they must pay and cannot deduct? American taxpayers could end up carrying the burden of the tax. In large part, the result is likely to higher costs for employees, higher deductibles, and other add-ons that will harm employees. Doesn't that go directly contrary to what President Obama and other proponents of the Affordable Care Act represented?

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