Research

Primer: Cadillac Tax (High Cost Plan Excise Tax)

JUNE 25, 2013

The High Cost Plan Excise Tax, which is often referred to as the “Cadillac Tax” is one of the revenue raising provisions in the 2010 Patient Protection and Affordable Care Act. The excise tax is calculated by comparing the cost of an employer-sponsored plan (which includes premiums paid by the employer and/or employee as well as any contributions into health accounts such as health savings accounts of flex savings accounts) to a benchmark, which will be adjusted every year based on the Consumer Product Index (CPI). Any amount above the benchmark is taxed at 40 percent; this tax is levied on the health insurance company but is generally understood to be passed onto the consumer, or firm purchasing that plan.