ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

# FACT SHEET:
# Impact of the 40% Tax on Non-Profit Organizations

The 40% tax on health benefits, which was enacted in the Affordable Care Act and takes effect in 2018, is a non-deductible excise tax of 40% of the value by which employer-sponsored health coverage exceeds certain benefit thresholds – in 2018 the thresholds are $10,200 for self-only coverage and $27,500 for family coverage.

The 40% tax, often referred to as the "Cadillac tax," was intended to address only high cost health plans that provide "rich" benefits (e.g., low or non-existent copays and deductibles, extensive provider networks and coverage for expensive procedures). The purpose of the tax was twofold: to generate revenue to help pay the cost of covering the uninsured, and to make so-called "gold plated plans"– which some argue encourage overuse of medical care – less attractive.

**Many non-profit organizations are not aware that the health plans they offer to their employees will be subject to the 40% tax.**

- Non-profit organizations, religious organizations, private employers and governmental employers – whether insured or self-funded – will be responsible for calculating the excise tax and apportioning it among insurers and administrators, who pay the tax. The calculation must be done on a monthly basis for *each* employee.

- The 40% tax will likely hit a greater share of non-profit employees than for profit employees. According to the U.S. Agency for Healthcare Research and Quality, premiums paid by nonprofit employees average higher than premiums paid by the general working population.

- Although non-profits are generally exempt from federal income taxes (other than income tax on an organization's unrelated business income ("UBIT"), the 40% excise tax will apply to all non-profit organizations in their capacity as employers.

- Because the tax is non-deductible, it cannot be used to offset an organization's UBIT.

- Administering the 40% tax will be particularly burdensome for small non-profit organizations that may be forced to incur the added expense of hiring outside consultants to help comply with all of the regulatory requirements that will come with determining whether and when their health plans are hit with the 40% tax.

- In determining whether their health plans are subject to the 40% tax, employers must include not only the value of the underlying health care benefits, but also the value of employer contributions to their employees' medical flexible spending accounts, health reimbursement arrangements and health savings accounts, as well as employee contributions made to a medical flexible spending account or health savings account through payroll deduction.

- The 40% tax also applies to the value of on-site medical clinics, certain wellness and employee assistance plans and other pre-tax health benefits.

- The 40% tax on benefits will tax charitable not-for-profits at the highest for-profit corporate tax rate for offering health care to their employees.

- The 40% tax may create an additional burden for tax-exempt employers that offer health benefits because the tax is calculated by the employer and paid by each plan's insurer or "person that administers the plan benefits" (which could be the employer's third party administrator or TPA). Experts expect the insurer or TPA to charge the employer for the amount of the tax plus any tax that the TPA might be required to pay for taking the tax repayment into income. Because the tax –exempt employer cannot deduct the cost of repaying the tax like a for-profit employer may, it may increase the cost of the tax for tax exempt employers.

The 40% tax needs to be repealed now as many employers are already cutting benefits and making plan design changes to avoid the tax. The benefits planning process occurs years in advance and the burden of the cost-sharing adjustments that employers are making this year and next will fall hardest on those least able to afford – lower-income workers, sicker workers and older workers. If we wait until 2018, it will be too late.

***The Alliance to Fight the 40*** *is a broad based coalition comprised of public and private sector employer organizations, unions, health care companies, businesses and other stakeholders that support employer-sponsored health coverage. This coverage is the backbone of our health care system and protects over 150 million Americans across the United States. The Alliance seeks to repeal the 40% tax on employee health benefits to ensure that employer-sponsored coverage remains an effective and affordable option for working Americans and their families.*