

What tax changes did the Affordable Care Act make?

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The Affordable Care Act (ACA) made several changes to the tax code intended to increase health insurance coverage, reduce health care costs, and finance health care reform. To increase health insurance coverage, the ACA provided a tax credit for individuals and small employers to purchase insurance and imposed excise taxes on individuals without adequate coverage and on employers who do not offer adequate coverage. To reduce health care costs and raise revenue for insurance expansion, the ACA imposed an excise tax on high-cost health plans. To raise additional revenue for reform, the ACA imposed surtaxes on high-income families and excise taxes on health insurers, pharmaceutical companies, and manufacturers of medical devices.

As shown in table 1, ACA tax provisions include the following:

- A refundable tax credit for families to purchase health insurance through state and federal exchanges. Tax filers must have incomes between 100 and 400 percent of the federal poverty level, be ineligible for health coverage from other sources, and be legal residents of the United States. The premium credit is projected to cost \$70 billion in 2020.
- A tax credit for small employers to purchase health insurance for their workers. Employers must have fewer than 25 workers whose average wages are less than \$50,000. Employers can only receive the credit for up to two years. The small-employer health insurance credit is projected to cost \$1 billion in 2020.

- An excise tax on individuals without adequate health insurance coverage. Many individuals are exempt from the excise tax, including those with incomes low enough that they are not required to file a tax return, those whose premiums would exceed a specified percentage of income, and unauthorized immigrants. The excise tax is projected to raise \$4 billion in 2020.
- An excise tax on employers offering inadequate health insurance coverage. The tax applies to employers with 50 or more full-time equivalent employees. The excise tax is projected to raise \$16 billion in 2020.
- An excise tax on employer-sponsored health benefits whose value exceeds specified thresholds. The thresholds are only indexed to price inflation, so more plans will be affected over time as health care costs grow faster than general inflation. The excise tax on high-cost health plans is projected to raise \$7 billion in 2020 with the revenue gain growing rapidly over time, reaching \$21 billion by 2025.
- An additional 0.9 percent payroll tax on earnings and a 3.8 percent tax on net investment income for individuals with incomes exceeding \$200,000 and couples with incomes exceeding \$250,000. The high-income surtaxes are projected to raise \$35 billion in 2020.
- Excise taxes on health insurance providers, pharmaceutical manufacturers and importers, and medical device manufacturers and importers. These excise taxes are projected to raise \$19 billion in 2020.

TABLE 1

Estimated Effect of ACA Tax Provisions on Federal Revenues FY 2020



Source	\$ billions
Exchange credit	-70
Small-business credit	-1
Excise taxes	81
Inadequate health insurance coverage by individuals	4
Inadequate health insurance coverage by employers	16
High-cost health plans ^a	7
High-income surtaxes	35
Health insurance providers, pharmaceutical and medical device manufacturers and importers	19
Total	10

Source: Congressional Budget Office (2015)

(a) Annual revenue from the excise tax on high-cost health plans is projected to grow rapidly, reaching \$21 billion by 2025.

DATA SOURCES

Congressional Budget Office. [Insurance Coverage Provisions of the Affordable Care Act—CBO's March 2015 Baseline](#).

Congressional Budget Office. 2015. ["Budgetary and Economic Effects of Repealing the Affordable Care Act."](#) Report, June 19. Washington, DC: Congressional Budget Office.