Q. What tax changes did the Affordable Care Act make?

A. The Affordable Care Act made several changes to the tax code intended to increase health insurance coverage, reduce health care costs, and finance health care reform.

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 individuals and small employers with a tax credit to purchase insurance and imposed taxes on individuals with inadequate 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 excise taxes on health insurers, pharmaceutical companies, and manufacturers of medical devices; raised taxes on high-income families; and increased limits on the income tax deduction for medical expenses.

ACA tax provisions in effect in 2018 (table 1) include the following:

- A refundable tax credit for families to purchase health insurance through state and federal marketplaces. 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 Tax Credit cost $49 billion in fiscal year 2018 and primarily benefits low- and moderate-income families.

- 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 cost $1 billion in 2018.

- A tax on individuals without adequate health insurance coverage (the "individual mandate"). Many individuals are exempt from the 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 2017 Tax Cuts and Jobs Act eliminated the individual mandate starting in 2019. Individual mandate receipts were $4 billion in 2018.

- A tax on employers offering inadequate health insurance coverage (the "employer mandate"). The tax applies to employers with 50 or more full-time equivalent employees. Employer mandate receipts were $4 billion in fiscal year 2018 and projected to be $10 billion by 2020. The taxes on individuals without adequate health insurance coverage and employers offering inadequate health insurance coverage disproportionately affect low- and moderate-income families, who are more likely to lack health insurance or to work for employers not offering coverage. (We assume the burden of the tax on employers not

offering adequate coverage falls entirely on workers.)

- Excise taxes on health insurance providers, pharmaceutical manufacturers and importers, and medical device manufacturers and importers. Legislation passed in early 2018 suspended the medical device tax for 2018 and 2019 and suspended the health insurer tax for 2019. The health insurer and pharmaceutical taxes raised $18 billion in 2018. These excise taxes have a similar percentage impact on after-tax incomes for families across the income distribution.

- An additional 0.9 percent Medicare tax on earnings and a 3.8 percent tax on net investment income (NII) for individuals with incomes exceeding $200,000 and couples with incomes exceeding $250,000. The additional Medicare tax raised $10 billion and the NII tax raised $27 billion in 2018. Nearly all families affected by the additional Medicare tax and NII tax are in the top 5 percent of income, with most of the burden borne by families in the top 1 percent of income.

TABLE 1

ACA Taxes and Credits

Fiscal year 2018

Item	Amount (in $ billions)
Credits	
Premium Tax Credit	$49
Small Business Health Insurance Credit	$1
Taxes	
Individual mandate	$4
Employer mandate	$4
Excise taxes on health insurance providers and pharmaceuticals	$18
High-income taxes	$37
Net revenues	**$13**

Source: Congressional Budget Office (2018a, b) and Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

What tax changes did the Affordable Care Act make?

Additionally, these ACA tax provisions are scheduled to take effect in the future:

- An excise tax on employer-sponsored health benefits whose value exceeds specified thresholds (the "Cadillac tax") starting in 2022. Because the thresholds are only indexed to price inflation, more plans will be affected over time if, as likely, health care costs grow faster than prices for other goods and services. Some employers will likely avoid the tax by switching to less expensive health plans; this will translate into higher wages but also higher income and payroll taxes. Including the impact on income and payroll taxes, the tax on high-cost health plans is projected to raise $8 billion in 2022 with the revenue gain growing rapidly over time, reaching $39 billion by 2028. The Cadillac tax reduces after-tax incomes the most in percentage terms for middle-income families.

- An additional limit on the medical expense deduction. Pre-ACA, taxpayers could deduct medical expenses exceeding 7.5 percent of income when calculating taxable income. The ACA increased the threshold to 10 percent of income, and the Tax Cuts and Jobs Act temporarily lowered the limit back to 7.5 percent in 2017 and 2018. The threshold is scheduled to increase to 10 percent of income in 2019. The higher threshold is projected to raise $2 billion in 2019 and has the largest relative impact on after-tax income for families in the fourth income quintile.

Tax changes were an important component of the package of reforms enacted by the ACA. Any major change to the ACA would require making tax policy decisions with implications for health insurance coverage, the budget deficit, and the distribution of after-tax income.

Data Sources

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