



Affordable Care Act Taxes

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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. On net, these taxes and credits are projected to reduce the deficit by \$46 billion in 2020, the first year all ACA tax provisions are scheduled to be in effect. Taken together, they increase the average tax burden significantly for families in the top 1 percent of the income distribution but benefit families in the bottom income quintiles by providing new credits that, on average, exceed their new taxes. Combined with the ACA's Medicaid expansion, the coverage-related taxes are projected to reduce the number of uninsured by [23 million](#) in 2020.

To increase health insurance coverage, the ACA provides a tax credit for individuals and small employers to purchase insurance and imposes excise taxes on individuals without adequate coverage and on employers

This year, Congress will consider what may be the biggest tax bill in decades. This is one of a series of briefs the Tax Policy Center has prepared to help people follow the debate. Each focuses on a key tax policy issue that Congress and the Trump administration may address.

who do not offer adequate coverage. To reduce health care costs and raise revenue for insurance expansion, the ACA imposes an excise tax on high-cost health plans. To raise additional revenue for reform, the ACA imposes surtaxes on high-income families; excise taxes on health insurers, pharmaceutical companies, and manufacturers of medical devices; and higher thresholds for the income tax deduction of medical expenses.

ACA tax provisions include the following:

- The Premium Tax Credit (PTC), 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 PTC, which primarily benefits low- and moderate-income families, is projected to cost \$36 billion in 2020 (table 1).
- A tax credit for small employers to purchase health insurance for their workers. Qualifying employers must have fewer than 25 workers whose average wages must be less than \$50,000. Employers can receive the credit for no more than 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 this tax, including those with incomes low enough that they are not required to file tax returns, those whose premiums would exceed a specified percentage of income, and unauthorized immigrants. This excise tax is projected to raise \$3 billion in 2020.
- An excise tax on employers who do not offer adequate health insurance coverage to their employees. The tax, which applies to employers with 50 or more full-time equivalent employees, is projected to raise \$20 billion in 2020. Excise taxes on individuals without adequate health insurance coverage and employers offering inadequate health insurance coverage disproportionately affect low- and moderate-income families, because they are more likely to lack health insurance or to work for employers not offering

TABLE 1

Estimated Effect of ACA Tax Provisions on Federal Deficit FY 2020



	\$ billions
Premium Tax Credit ^{a b}	36
Small business health insurance credit	1
Excise taxes	-45
Inadequate health insurance coverage by individuals	-3
Inadequate health insurance coverage by employers	-20
High cost health plans ^c	-3
Health insurance providers, pharmaceuticals, and medical devices	-19
High income surtaxes	-35
Additional limitation on medical expense deduction	-3
Total	-46

Source: Congressional Budget Office. 2015. "Budgetary and Economic Effects of Repealing the Affordable Care Act." Report, June 19; 2016. "Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2016 to 2026." Report, March; 2017. "Federal Subsidies Under the Affordable Care Act for Health Insurance Coverage Related to the Expansion of Medicaid and Nongroup Health Insurance." Washington, DC: Congressional Budget Office; Urban Institute's Health Insurance Policy Simulation Model (HIPSM), and Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2).

(a) PTC estimate from HIPSM. CBO projects the PTC will grow faster over time than HIPSM. CBO projects the impact of the PTC on the deficit will be \$65 billion in FY2020.

(b) PTC estimate includes impact on revenues and outlays.

(c) Annual revenue from the excise tax on high-cost health plans is projected to grow rapidly, reaching \$20 billion by 2026.

coverage.

- An excise tax (scheduled to start in 2020) on employer-sponsored health benefits whose value exceeds specified thresholds. Because the thresholds are only indexed to general price inflation, more plans will be affected over time if, as likely, health care costs grow faster than prices of other goods and services. The excise tax on high-cost health plans is projected to raise \$3 billion in 2020 with the revenue gain growing rapidly over time, reaching \$20 billion by 2026. This so-called Cadillac tax will reduce after-tax income the most in percentage terms for middle-income families.
- 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. These excise taxes have a similar percentage impact on after-tax incomes for families across the income distribution.
- An additional 0.9 percent payroll 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 high-

income surtaxes are projected to raise \$35 billion in 2020. Nearly all families affected by the additional payroll 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. Because the thresholds are not indexed for inflation, however, more households will be affected over time.

- A higher threshold for the medical expense deduction. Pre-ACA, taxpayers could deduct medical expenses exceeding 7.5 percent of income. Post-ACA, the deduction is limited to medical expenses exceeding 10 percent of income. The higher threshold is projected to increase income tax revenue by \$3 billion in 2020. The provision has the largest relative impact on after-tax income for families in the fourth income quintile.

Taken together the ACA taxes and credits are projected to reduce the budget deficit by \$46 billion in 2020. The ACA's revenue raisers more than cover the cost of the PTC and the small employer health insurance credit and pay for part of the cost of expanding Medicaid, projected to be [\\$91 billion](#) in 2020. The ACA, which the [Congressional Budget Office](#) estimated would reduce the

TABLE 2

Repeal of ACA Tax Provisions Distribution of average federal tax change, 2025



	Average federal tax change						All	Top 1%
	Lowest quintile ^a	Second quintile	Middle quintile	Fourth quintile	Top quintile			
Repeal premium tax credit	280	460	160	50	0	220	0	
Repeal excise tax on individuals without and employers not offering adequate health insurance coverage	-170	-200	-170	-140	-180	-170	-290	
Repeal excise tax on high-cost health plans ("Cadillac tax")	0	-30	-110	-150	-270	-90	-250	
Repeal 3.8% net investment income tax	0	0	0	0	-1,710	-230	-31,920	
Repeal 0.9% additional Medicare tax on high-income earners	0	0	0	0	-780	-110	-11,440	
Repeal excise taxes on health insurance providers, pharmaceuticals, and medical devices	-20	-60	-100	-170	-440	-130	-2,380	
Repeal increase in threshold for medical expense deduction	0	0	-20	-60	-90	-30	-110	
Repeal all ACA tax provisions excluding premium tax credit^b	-190	-290	-400	-520	-3,460	-750	-46,390	
Repeal all ACA tax provisions including premium tax credit	90	170	-240	-470	-3,450	-530	-46,390	

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2).

(a) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% \$26,900; 40% \$52,300; 60% \$89,300; 80% \$149,900; 90% \$219,700; 95% \$299,500; 99% \$774,300.

(b) TPC does not include the premium tax credit in its tax baseline because of its similarity to a spending program.

budget deficit, primarily covers the remaining Medicaid costs by reducing Medicare payments to providers and to Medicare Advantage plans.

On net, the ACA [significantly increases average taxes](#) on families in the top 1 percent of income, cuts taxes on families in the bottom two quintiles, and modestly increases taxes on the rest of families. Repealing the ACA taxes (including credits) in 2025 would provide an average tax cut of \$46,000 to families in the top 1 percent, increasing their after-tax incomes by more than 2 percent (tables 2 and 3). In contrast, average taxes for families in the bottom and second quintiles would increase by \$90 and \$170, respectively, reducing their average after-tax incomes by at least 0.4 percent. Families in the middle quintile would receive an average tax cut of \$240, increasing their after-tax incomes by 0.3 percent.

While repealing ACA taxes would hurt families in the bottom two quintiles on average, the story is more complicated. For the 6 percent of families in the bottom quintiles with PTCs, repealing ACA taxes would be a substantial loss, over \$5,000 on average (table 4). But most low-income families would receive a modest tax cut of around \$250. And tax cuts would be larger—averaging about \$1,500—for the 11 percent of low-income families affected by the coverage-related excise taxes (not shown).

Tax changes are an essential component of the package of reforms enacted by the ACA. Policymakers wishing to repeal or replace the ACA will need to make tax policy decisions that dramatically affect health insurance coverage, the budget deficit, and the distribution of after-tax income.

TABLE 3

Repeal of ACA Tax Provisions Distribution of change in after-tax income, 2025



	Percent change in after-tax income						
	Lowest quintile ^a	Second quintile	Middle quintile	Fourth quintile	Top quintile	All	Top 1%
Repeal premium tax credit	-1.5	-1.1	-0.2	*	0.0	-0.2	0.0
Repeal excise tax on individuals without and employers not offering adequate health insurance coverage	0.9	0.5	0.2	0.1	0.1	0.2	*
Repeal excise tax on high-cost health plans ("Cadillac tax")	0.0	0.1	0.2	0.1	0.1	0.1	*
Repeal 3.8% net investment income tax	0.0	0.0	0.0	0.0	0.5	0.3	1.4
Repeal 0.9% additional Medicare tax on high-income earners	0.0	0.0	0.0	0.0	0.2	0.1	0.5
Repeal excise taxes on health insurance providers, pharmaceuticals, and medical devices	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Repeal increase in threshold for medical expense deduction	0.0	0.0	*	0.1	*	*	*
Repeal all ACA tax provisions excluding premium tax credit^b	1.0	0.7	0.5	0.4	1.0	0.8	2.1
Repeal all ACA tax provisions including premium tax credit	-0.5	-0.4	0.3	0.4	1.0	0.6	2.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2).

(a) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% \$26,900; 40% \$52,300; 60% \$89,300; 80% \$149,900; 90% \$219,700; 95% \$299,500; 99% \$774,300.

(b) TPC does not include the premium tax credit in its tax baseline because of its similarity to a spending program.

* Nonzero value rounded to zero.

TABLE 4

Repeal of all ACA Taxes, Including Premium Tax Credit
 Percentage of tax units with federal tax change and average tax change
 by expanded cash income percentile, 2025



Expanded cash income percentile ^a	Tax units with tax cut		Tax units with tax increase	
	% tax units	Avg tax cut	% tax units	Avg tax increase
Lowest quintile	79.2	-220	5.4	4,770
Second quintile	92.5	-270	7.1	5,960
Middle quintile	97.7	-390	2.0	6,940
Fourth quintile	99.1	-510	0.6	6,160
Top quintile	99.9	-3,460	0.0	0
All	91.9	-800	3.6	5,600

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0516-2).

(a) The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2016 dollars): 20% \$26,900; 40% \$52,300; 60% \$89,300; 80% \$149,900.