

## Premium Tax—Ending the Sales Tax on Health Insurance That Raises Costs for Families, Small Businesses, Seniors, State Governments, and Taxpayers

Beginning in 2014, the Affordable Care Act (ACA) imposes a tax of at least \$73 billion through 2019 on families, small businesses and seniors in the form of what is essentially a new sales tax on health insurance. The tax begins at \$8 billion in 2014 and rises to \$14.3 billion in 2018. Thereafter it increases annually based on premium growth. While the tax is assessed on health plans, experts agree that it will impact consumers and employers that purchase coverage directly from a health insurance plan in the individual and employer markets as well as beneficiaries in public programs. The new tax is not assessed on self-funded ERISA plans, non-profit insurers that meet specific criteria, and certain voluntary employee benefit associations (VEBAs).

### Impact of the Tax on Employers, Individuals, Families, Seniors and Taxpayers

While one of the goals of the ACA is to make coverage more affordable, the sales tax on health insurance will have the opposite effect by increasing costs for families, small businesses and seniors. This tax will drive premiums higher, and according to Doug Holtz-Eakin, former director of the Congressional Budget Office, the sales tax on health insurance alone—once one factors in the non-deductible nature of the tax—will place an upward pressure of \$135 billion on premiums over the next 10 years [through 2020]. This tax will add as much as 3% per year (\$475) to the average family premium, or nearly \$5,000 per family over a decade.<sup>1</sup> Specifically, this tax will impact:

- ▶ **Businesses that purchase insurance—including all small businesses that fully insure their workforces.** These businesses will pay a portion of the tax, which will increase premiums for employers struggling to maintain coverage for employees.
- ▶ **All individual and families who purchase coverage in the individual market.** These consumers feel the brunt of the tax through higher premiums. In addition, individuals and families cannot deduct premium payments from federal income taxes and therefore already face the challenge of purchasing coverage with after-tax income.



- ▶ **Medicare beneficiaries who enroll in a Medicare Advantage health plans.** Medicare Advantage enrollees are already burdened with the expected impact of the ACA funding cuts: reductions in additional benefits and choices. This tax will likely exacerbate the reduction in additional benefits and access to health plans for Medicare Advantage enrollees.
- ▶ **States that contract with managed care organizations under Medicaid.** Medicaid health plans are limited in their ability to establish beneficiary premiums to raise additional revenues to cover the cost of the tax. This tax is likely to increase state contracting costs under state budgets, which are already experiencing fiscal crises that jeopardize the sustainability of Medicaid programs.

## Recommendation:

**Repealing the tax will reduce the financial burden on families, businesses and seniors when they purchase coverage in the reformed 2014 market.**

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1 Holtz-Eakin, Douglas. "Higher Costs and the Affordable Care Act: The Case of the Premium Tax." American Action Forum. 9 March 2011. <http://americanactionforum.org/sites/default/files/Case%20of%20the%20Premium%20Tax.pdf>

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## The Compounding Effect of New and Old Taxes

It is important to examine the new sales tax on health insurance in the context of future and existing taxes on several health care sectors:

- 1) First, additional ACA taxes, including those on prescription drug and medical device manufacturers, will increase the unit costs of health care, which will subsequently increase premiums for individuals, families and small businesses.
- 2) Second, the effective amount of the tax on consumers well exceeds the amounts specified in the statute as the ACA constructed this tax to be non-deductible, unlike other federal, state and local taxes. This means that health plans must pay the tax and then pay federal, state and local taxes on the taxed amount.
- 3) Third, this new tax is layered on top of existing state and federal taxes levied on health plans that have been in place prior to ACA, including state premium taxes, assessments to support high risk pools, and state and federal income taxes, among others.




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