



## Explanation of ColoradoCare non-payroll Premium Tax impact on tax rates<sup>1</sup>

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The ColoradoCare non-payroll Premium Tax rate is 10% and has a maximum cap of \$350,000/individual or \$450,000/joint filer for both payroll and non-payroll income combined. The Premium Tax is a state income-based tax and is expected to be fully deductible from federal income taxes, but the IRS has not yet ruled on this. In contrast, health care expenses now are not deductible unless they exceed 10% of income (7.5% for people born before 1950<sup>2</sup>). Considering the reduction in income taxes, the impact on a taxpayer's wallet of the 10% Premium Tax is reduced to between 9% and 6.04% depending on the federal tax bracket. A high-income earner in the federal 39.6% income tax category would pay an effective rate of 6.04%. Because Premium Tax liability is limited to \$450,000 for joint filers, the after-income-tax impact on the taxpayers wallet would be \$27,180. This is less expensive than the cost of some family health insurance plans. The ACA does not consider a family health insurance plan to be a Cadillac plan, upon which it imposes a 40% excise tax, unless the cost exceeds \$27,500<sup>3</sup> or \$320 more than ColoradoCare would cost a wealthy joint filer after considering the expected tax write-off.

The total amount of federal income tax savings for Coloradans is difficult to estimate because the savings increase with income, and there is no convenient way to estimate how many Coloradans would be in each tax bracket. However, even assuming that all Coloradans were in one of the lowest tax brackets, 15%, the reduced federal income tax is estimated to be \$861 million with ColoradoCare<sup>4</sup>. Yet Coloradans would certainly save even more, because many incomes are in a higher tax bracket.

**ColoradoCare Tax Impact Table**

Individual filer taxable income	Joint filer taxable income	Federal income tax rate	Your premium tax impact rate
Up to \$9,076	Up to \$18,150	10%	9%
Over \$9,076	Over \$18,150	15%	8.5%
Over \$36,900	Over \$73,800	25%	7.5%
Over \$89,350	Over \$148,850	28%	7.2%
Over 186,350	Over \$226,850	33%	6.7%
Over \$405,100	Over \$405,100	35%	6.5%
Over \$406,750	Over \$457,600	39.6%	6.04%

<sup>1</sup> Miller, I.J. (2015). An earlier version of this paper was originally published as Appendix C of the Economic Analysis of the ColoradoCare Proposal: Including addendum with 2019 projections, prepared by Ivan J. Miller, Ph.D. for the Colorado Foundation for Universal Health Care, April 10, 2015 with Addendum added 8.3.15, V5.0

<sup>2</sup> IRS Form 1040 (Schedule A) Instructions state that medical expenses need to exceed 10% of income (7.5% for those born before 1950).

<sup>3</sup> Miller, I.J. (2015) Op cit. Appendix C calculations are adjusted to limit savings to calculate savings on federal taxes as cited here.

<sup>4</sup> Wikipedia, (2015). Cadillac insurance plan. [http://en.wikipedia.org/wiki/Cadillac\\_insurance\\_plan](http://en.wikipedia.org/wiki/Cadillac_insurance_plan)