



Explanation of non-payroll Premium Tax impact¹

The 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 tax and is deductible from income taxes, whereas health care expenses are not deductible unless they exceed 10% of income (7.5% for people born before 1950)². Because state taxes are calculated based on federal deductions, the Premium Tax would be a deduction on state income taxes as well. Considering the reduction in income taxes, the impact of the 10% Premium Tax for income tax payers is reduced to between 8.537% and 5.577% depending on tax bracket. A high-income earner in the federal 39.6% income tax category would pay an effective rate of 5.577%. Because premium liability is limited to \$450,000 for joint filers, the after-income-tax impact would be \$25,200. 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 \$27,500,³ \$2,300 more than ColoradoCare would cost a wealthy joint filer after considering the tax write-off.

This deduction is a substantial reduction in income taxes that the Colorado Legislative Services has projected to be \$218.7 million in 2016 (Appendix A), and is forecast in this analysis to be \$265.9 million in 2019 for state income taxes alone. The exact amount of 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 income taxes (federal and state combined) would be \$1,127 million. This savings would certainly be larger because many incomes are in a higher tax bracket. This \$1,127 million savings on income tax would be in addition to the savings report for Premiums + OOP.

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%	8.537%
over \$9,076	over \$18,150	15%	8.037%
over \$36,900	over \$73,800	25%	7.037%
over \$89,350	over \$148,850	28%	6.737%
over \$186,350	over \$226,850	33%	6.237%
over \$405,100	over \$405,100	35%	6.037%
over \$406,750	over \$457,600	39.6%	5.577%

¹ 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

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

³ ³ Wikipedia, (2015). Cadillac insurance plan. http://en.wikipedia.org/wiki/Cadillac_insurance_plan