



Health Insurance Tax (HIT) Background

The small business community has consistently said that controlling the increasing costs of health insurance premiums is their No.1 concern. The Health Insurance Tax (HIT), included in the Patient Protection and Affordable Care Act (PPACA), will raise the cost of small business health insurance premiums.

Initially levied on health insurers, the HIT is a “pass-through” tax on consumers in the fully insured marketplace, where nearly all small businesses and the self-employed purchase their coverage.

Congress acted to provide relief from the HIT for 2017. While this was an important step to protect consumers, Congress should focus on providing further relief for 2018 and beyond.

How does the tax work?

PPACA assesses a tax on all health insurance plans based on their “net premiums” written. It is projected to raise \$14.3 billion in 2018 and more in later years.

Economists have consistently agreed that new taxes on health insurers inevitably mean new costs for customers. The group that experiences the most cost shifting is the fully-insured market.

How does this tax increase the cost for small business?

The HIT does not fall on employers that self-insure. Most small business owners do not self-insure because they do not have a large enough pool of employees. Instead, small employers purchase health insurance in the fully-insured market. The only insurance plans that factor into the equation for purposes of determining the insurance company’s portion of the HIT are fully-insured plans— purchased by 88 percent of small business owners.ⁱ

A recent Congressional Budget Office (CBO) report confirms that the HIT “would be largely passed through to consumers in the form of higher premiums for private coverage.” A study by former CBO Director Douglas Holtz-Eakin indicates that the anticipated impact is nearly \$5,000 per family over a decade.ⁱⁱ

ⁱ Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2011 Medical Expenditure Panel Survey-Insurance Component.

ⁱⁱ Douglas Holtz-Eakin, “Higher Costs and the Affordable Care Act: The Case of the Premium Tax.” Washington, DC: American Action Forum, 2011.