Legislative Revenue Office Appendix

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Characteristics of Revenue Sources

Universal Health Plan Governance Board

Finance & Revenue Committee | 12/17/2024

Legislative Revenue Office

Presentation & Discussion Outline

Thinking about revenue design

- Types of revenue sources
- Personal income tax
- Payroll tax (or tax on labor)
- Health care provider taxes
- Fees

Types of Revenue Sources

Types of Revenue Sources

- Taxes
  - Principal means of financing government expenditures
  - Compulsory payments that do not generally bear a relationship to the government benefits/goods/services provided
    - Taxes support general discretionary spending

- Fees
  - A charge imposed for the purpose of recouping costs incurred in providing the service to the payer, a penalty, or charge imposed for punishment

Why Revenue Source Type Matters

- Oregon constitutional requirements pertaining to tax measures
  - Originate in the House
    - "bills for raising revenue shall originate in the House of Representatives" (Article IV, Section 18)
  - 3/5^{ths} requirement
    - "Three-fifths of all members elected to each House shall be necessary to pass bills for raising revenue" (Article IV, Section 25)
- Taxes must originate in the House, and require 36 votes in the House and 18 in the Senate
- Measures that assess fee for a specific purpose are not "bills raising revenue", such bills only require simple majority

Why Revenue Source Type Matters, Continued

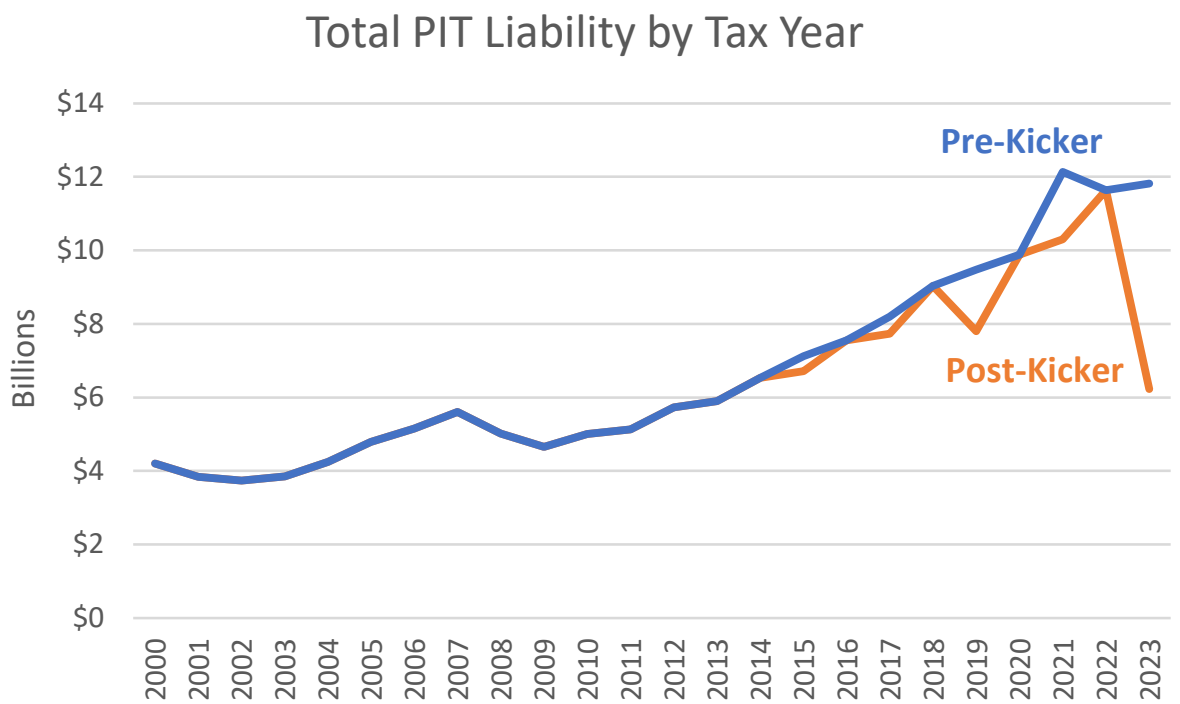
- Legislative Counsel includes note in legislation "providing for revenue raising that requires approval by a three-fifths majority"

- Determination of "bill to raise revenue" depends on characteristic of legislation, not its name
  - Two-prong test
    - Does measure bring money into the Treasury
    - Does bill possess the essential features of a bill levying a tax
      - I.E. – Calling something a fee or an assessment matters not
      - E.G. – Oregon's $60 document recording fee for affordable housing (HB 4007, 2018)

Personal Income Tax

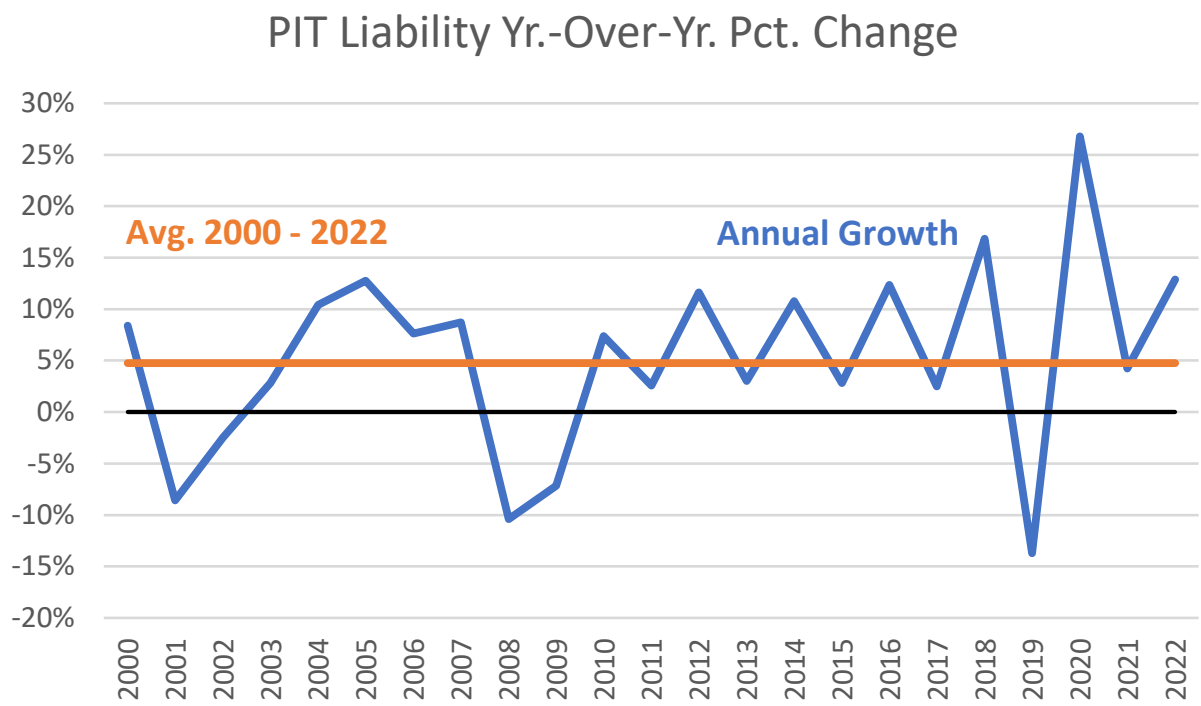
Personal Income Tax Base & Collections

- PIT is a large tax base
  - Earned income
  - Business income (pass-thru & sole props.)
  - Some retirement
  - Capital gains
- Existing OR PIT connected to federal income tax
- Kicker implications
- Federal deductibility?



Personal Income Tax Growth Trend

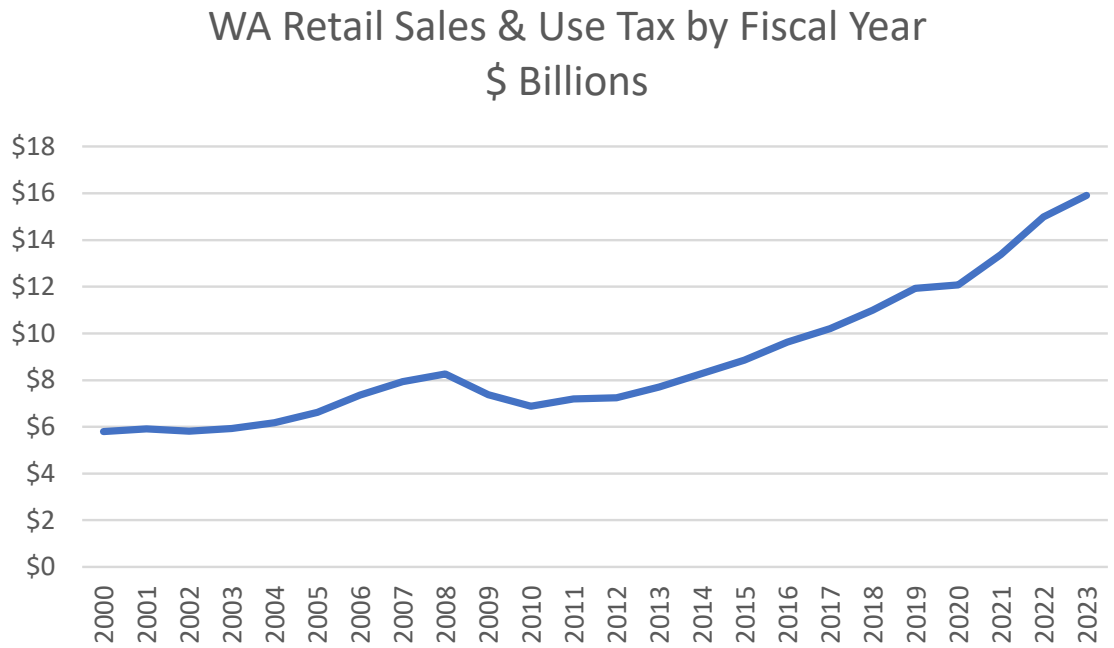
- Fluctuations in PIT collections
- Variability of growth, impact of recessions
- Impact of Oregon Kicker on collections
- Reserves?

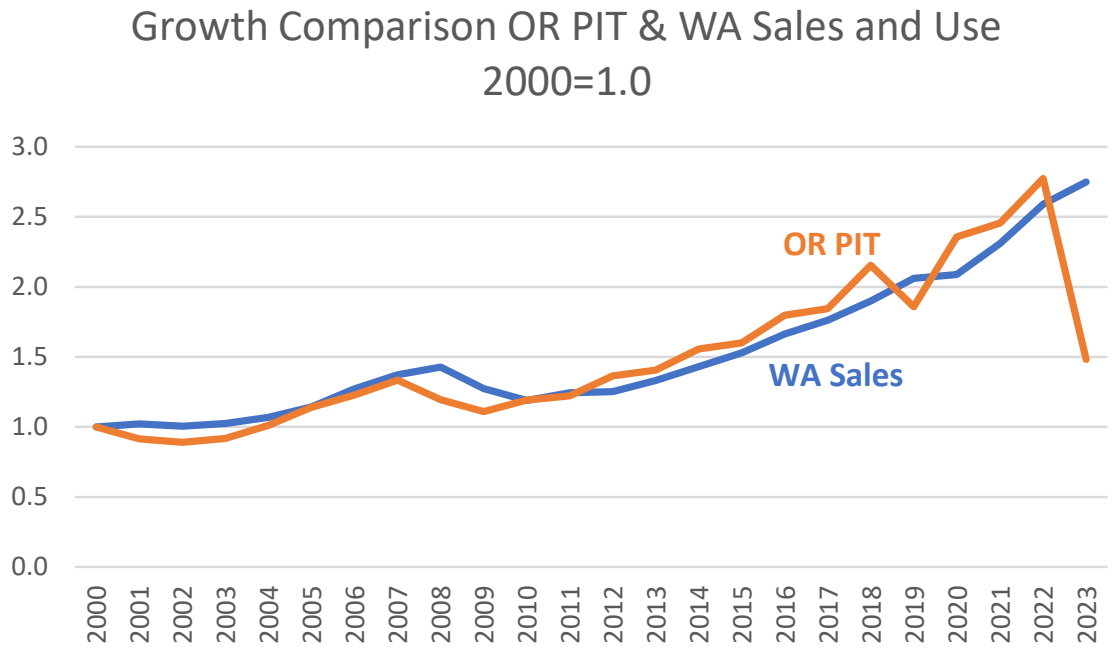


Sales Tax

Sales Tax Revenue – Washington State

- Large tax base
- Depending on structure, sales taxes are generally regressive
- Growth rate similar to OR PIT, though Kicker is visible





Payroll Tax

Payroll or Labor Taxes

- Payroll tax is a subset of income tax
  - Often levied on wages
  - Self-employment
  - Breadth of applicability (payroll amount, industry sectors, self-employed / independent contractors)
- Initial tax incidence (who's responsible for the tax)
  - Employer
  - Employee
  - Combination of the two
- Structuring the tax
- Dovetails with employer-sponsored health insurance

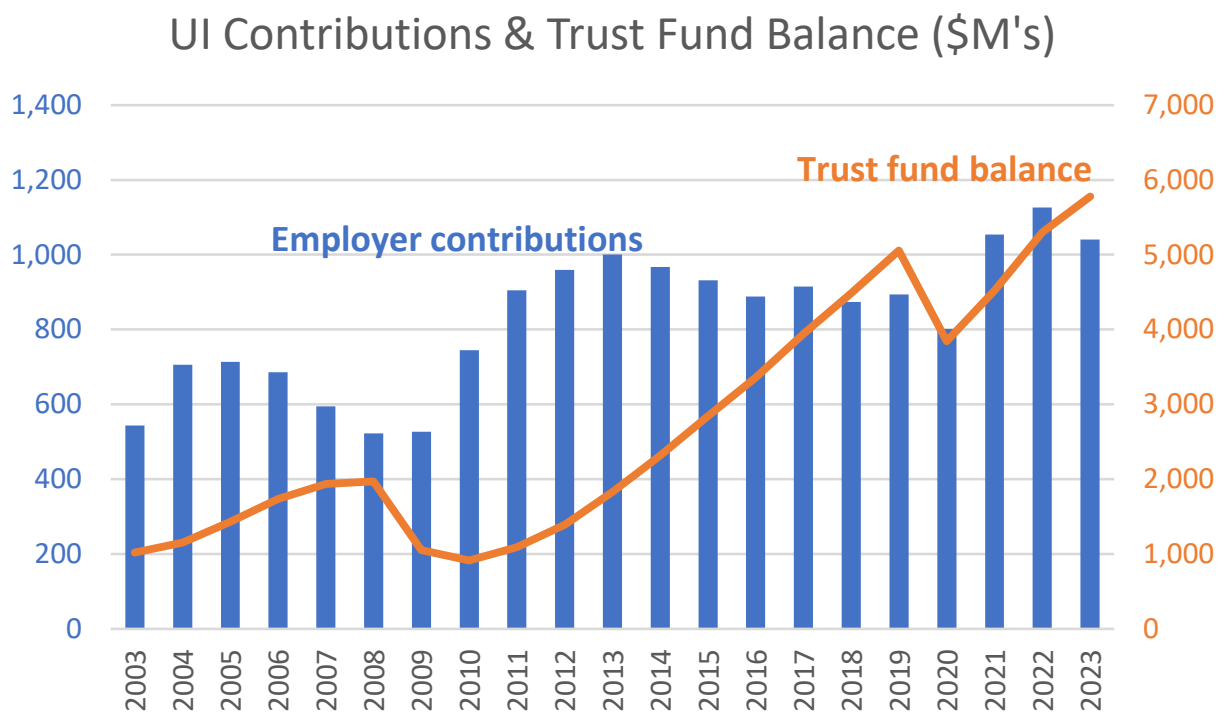
Oregon's Unemployment Insurance (UI) Tax

- Tax on wages paid by private employers
- For 2024, taxable wages are first $52,800 of wages paid to each employee
- Benefits paid are formulaically determined (1.25% of base year gross income, minimum and maximum amounts based on state avg. weekly wage)
- Benefits are available to covered employees

Oregon's UI Revenue Balancing Policy

- Unemployment insurance (UI) tax adjusts to potential revenue need

- Tax rate range in statute with formula specifications for adjustment

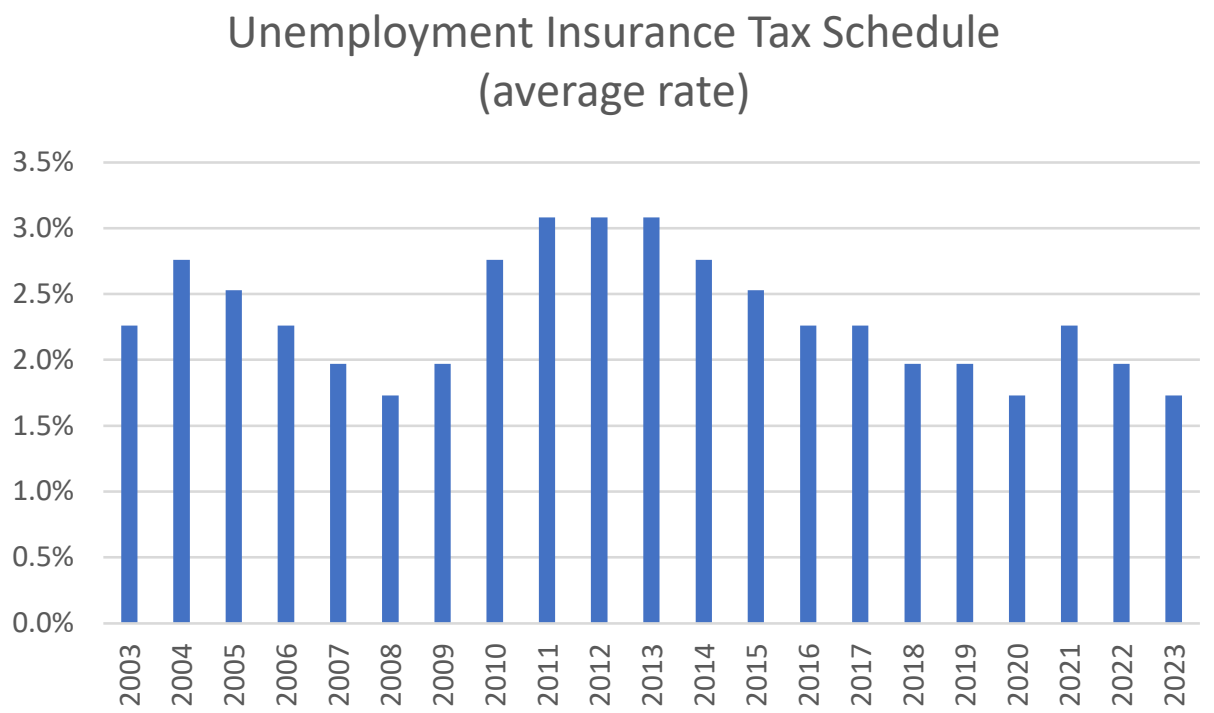


Source: OR Employment Department

Oregon's UI Revenue Balancing Policy Continued

- Tax rate schedule adjusts each year based on fund adequacy percentage ratio, and goal of minimizing fluctuations in rates

- Ratio comparing trust fund balance with expected benefit payments (high-cost payment period)



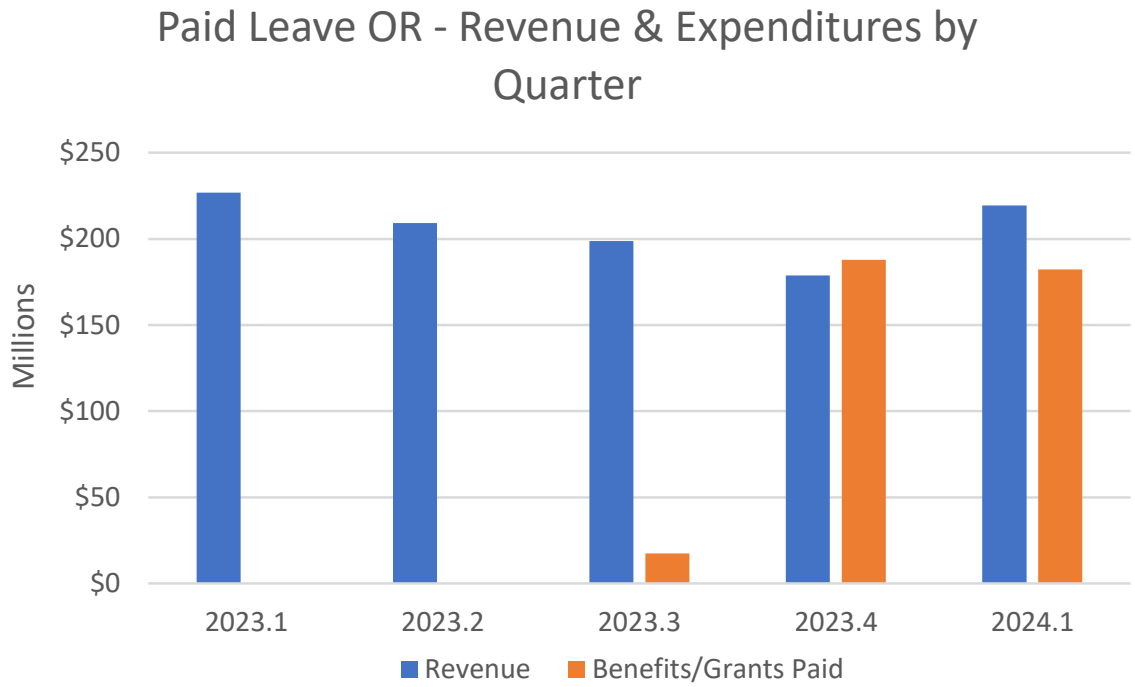
Source: OR Employment Department

Oregon's Paid Leave Program (PLO)

- Enacted in 2019 (HB 2005), began taxing in 2023, benefits paid beginning Sept. 2023
- The tax (referred to as contributions)
  - Statutory limit of 1% × employee wages (wages maxed at Social Security wage base, indexed $168,600 in 2024)
    - Employees pay 60%
    - Employers pay 40% (employers < 25 employees are exempt)
- Equivalent plan
  - Employers providing an "equivalent" paid leave plan are exempt from tax and employees do not receive benefits through PLO

Oregon Paid Leave | Tax & Expenditures

- Statute requires OR Employment Dept. to set the Paid Leave tax rate, limited to no more than 1%, based on:
  - At end or period, balance of moneys in PLO fund is not less than six months of projected expenditures,
  - Minimize volatility of the contribution rates
- Benefits are formulaically determined based on employee's wage and state weekly wage
- If fund becomes insolvent, Employment may
  - Adjust benefit amount,
  - If needed, reduce number of qualified weekly payments



Source: OR Employment Dept.

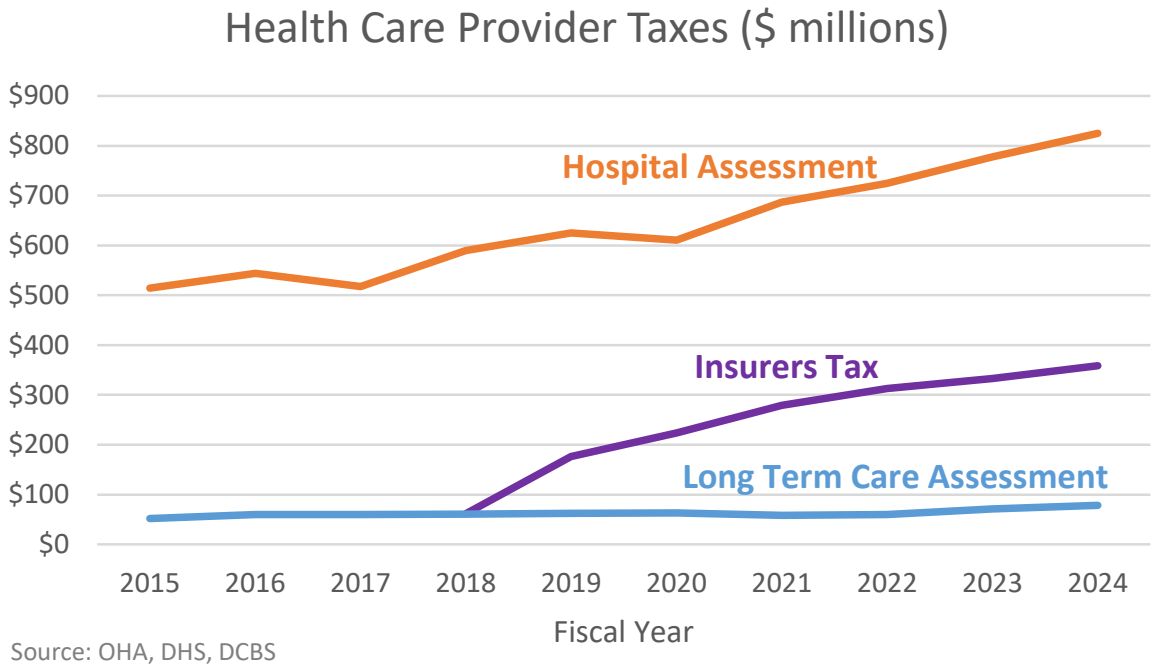
Health Care Provider Taxes

Health Care Provider Taxes

- **Hospital Assessments**
  - Applicable to Sept. 30, 2025 (previously extended in 2019)
  - Assessment on DRG & Type A/B hospitals: $6\% * net\ patient\ revenue$
  - Generates federal funding for Medicaid

- **Health Insurance Plan Assessments**
  - Applicable to Dec. 31, 2026 (previously extended in 2019)
  - Assessment on health insurers: $2\% * health\ plan\ premiums$
    - Equivalent tax for PEBB and managed care organizations (CCOs) of 2% on 'premium equivalents'
  - Generates federal funding for Medicaid

- **Long term care facility assessment**
  - Applicable to June 30, 2032 (extended in 2024 session)
  - Assessment on licensed nursing facilities: $6\% * gross\ revenue$
  - Generates federal funding for licensed nursing facilities



Source: OHA, DHS, DCBS

Fees

Oregon State Agency Fees

- "Fee" (ORS 291.050)

  "an amount imposed and collected by a state agency to defray or recover the costs of administering the law involved in providing a service to the public and used by the state agency to carry out or enforce a law under its jurisdiction"

- Purpose of the fee?
  - Revenue from consumption of health care?
  - Means of replacing copays, deductibles?

Legislative Revenue Office

https://www.oregonlegislature.gov/lro

503-986-1266

EPT - Employer Payroll Tax -- Preliminary Notes

Estimated Calendar Year 2032 tax liability at 9.6% Rate: $15.1 Billion

Estimation Method:

The estimate was based on the existing Statewide Transit Tax (STT). Oregon-based employers are required to withhold for all work performed in Oregon. Oregon residents that work outside Oregon are required to pay the tax, but their employer can withhold on their behalf as a courtesy. The tax applies to wages defined in ORS 316.162, which excludes some types of employees and services and excludes all self-employment income.

The revenue estimate is based on the STT forecast. STT is imposed at 0.1% of wages. A 9.6% tax would yield about 96 times the revenue of STT applied to the same tax base. The UHPT proposal includes an annual payroll exemption of $500,000 per "firm" which is estimated to reduce the tax base by about 18% based on payers of the STT.

Estimate Disclaimer:

Estimate reflects a high-level preliminary analysis of described EPT proposal. This is a static estimate with no behavioral response or macroeconomic feedback incorporated, nor is the tax base adjusted to reflect changes to the health insurance environment. Current data doesn't support distributional analysis by employer.

Major Policy and Administration Questions:

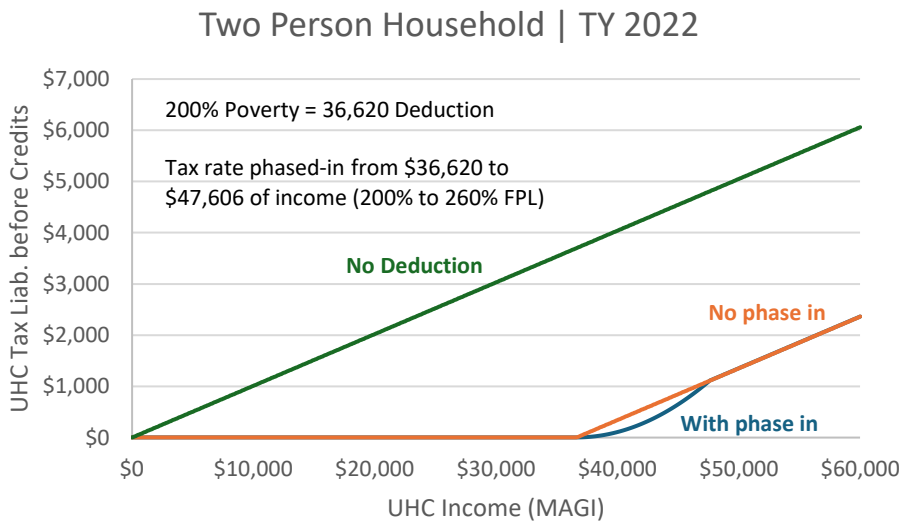
- Tax Base – Covered Persons: The STT applies to work performed in Oregon and to work performed by Oregon residents in other states. The UHPT proposal should clarify how each of the following populations would be treated:
    - Nonresidents working in Oregon
    - Oregon residents working partially or entirely in other states
    - Workers with multi-state payroll (e.g., construction workers)
- Tax Base - Wages: The STT applies to wages as defined in ORS 316.162, which excludes certain categories of workers, activities, and all self-employment income. The UHPT proposal should clarify the intended wage base
- Definition of Firm; The $500,000 per "firm" payroll exemption makes the definition of the "firm" a critical design question: Possible definitions include:
    - A single physical location
    - All entities under common ownership (requiring a minimum ownership threshold to be specified)
    - All entities under common ownership that share economic value across business lines (the "unitary" concept used for corporate income tax)

HCPIT – Health Care Personal Income Tax – Preliminary Notes

Estimated Calendar Year 2032 tax liability at 10.1% rate: $9.7 billion

Estimation Method:

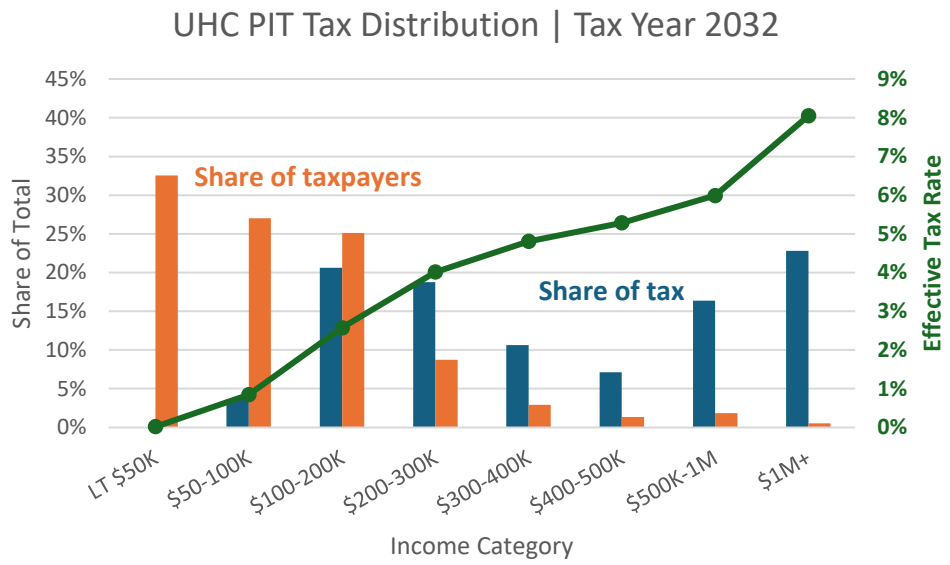
The tax base for the HCPIT begins with adjusted gross income minus federally taxable Social Security income, tax exempt federal pension income, and interest earnings on U.S. debt (all three income types are exempt from state income tax under federal law or by the Oregon Constitution). Taxpayers qualify for a ***standard deduction*** equal to 200% of federal poverty level (FPL) for the taxpayer. FPL is based on the federal poverty guidelines and a taxpayer's household size is determined at the tax return level (e.g., a single taxpayer with two dependents would have a household size equal to three). Full tax liability is phased in from 200% to 260% of FPL. The exhibit below provides an example of the tax calculation and FPL standard deduction. The green line displays what no standard deduction would



look like. The blue line displays the phase in from 200% to 260% of FPL (the policy for the $9.7B preliminary estimate). Two ***non-refundable tax credits*** are available. The payroll tax credit is equal to 50% of the UHPT paid for the specific taxpayer. Taxpayers may also claim a credit for Medicare Part B premiums paid for the tax year (estimate based on projections in Medicare Trustees report of future year standard monthly premium amounts, as adjusted to reflect taxpayer incomes).

The exhibit below displays preliminary distribution output for HCPIT liability for tax year 2032. The distribution reflects HCPIT tax net of the standard deduction and two tax credits. The orange column is the percentage share of tax returns (count) by income category whereas the blue columns are the percentage share of HCPIT liability. The green line displays the effective tax rate. Progressivity of the HCPIT is reflected in the increasing

effective tax rate. The tax is highly concentrated with higher income taxpayers. The top 0.5% of taxpayers (those above $1M in income) are estimated to pay nearly 25% of total liability.



Estimate Disclaimer:

Estimate reflects a high-level preliminary analysis of described HCPIT proposal. This is a static estimate with no behavioral response or macroeconomic feedback incorporated, nor is the tax base adjusted to reflect changes to the health insurance environment.

Major Policy and Administration Questions:

- Federal poverty level is not an existing personal income tax parameter, how FPL is administered will impact analysis
- Non-resident taxpayers are excluded from this analysis, if they will qualify for health insurance then perhaps should be included in tax base
- Policy design of the tax results in a progressive income tax though it's worth noting that a taxpayer living in Portland could be subject to a top marginal income tax rate of nearly 25% for combined state and local income taxes
- How to treat resident Oregon taxpayers working in another state and receiving health insurance through their non-Oregon employer

Overview of Universal Health Care Taxes: Scaling of Estimates

General Notes on the Estimates

- High-level preliminary impact estimates

- Estimates do not include any macroeconomic or behavioral feedbacks

- Tax base
  - Generally utilizes an existing tax base

Corporate Income Tax Add-on (CIT) – Tax Year 2032

- Tax Base = Current Corporate Tax Base
- Increase from ratepayers modeled from data
  (Increase for min. taxpayers expected to be less than 1%)
- To raise $1 billion in tax requires increase of about 3.7%
- Scaled Rates

	Additional Tax Rate		
	4.25%	4.49%	5.00%
Tax ($B)	$1.15	$1.21	$1.35

Corporate Activity Tax (CAT+) – Tax Year 2032

- Tax Base = Current Corporate Activity Tax base
- Proportionately adjusted
- 0.01% point increase yields about $35M in revenue
- Scaled Rates

	Additional Tax Rate		
	0.113%	0.120%	0.133%
Tax ($M)	$392	$414	$461

New Payroll Tax (EPT) – Tax Year 2032

- Tax Base = Statewide Transit Tax
- Model excludes employers reporting less than $500,000 payroll
  (this is relatively minor factor at a maximum of around $50,000 per employer)
- To raise $1 billion in tax requires tax rate of about 0.636%
- Scaled Rates

	Tax Rate		
	9.89%	10.44%	11.62%
Tax ($B)	$15.55	$16.43	$18.28

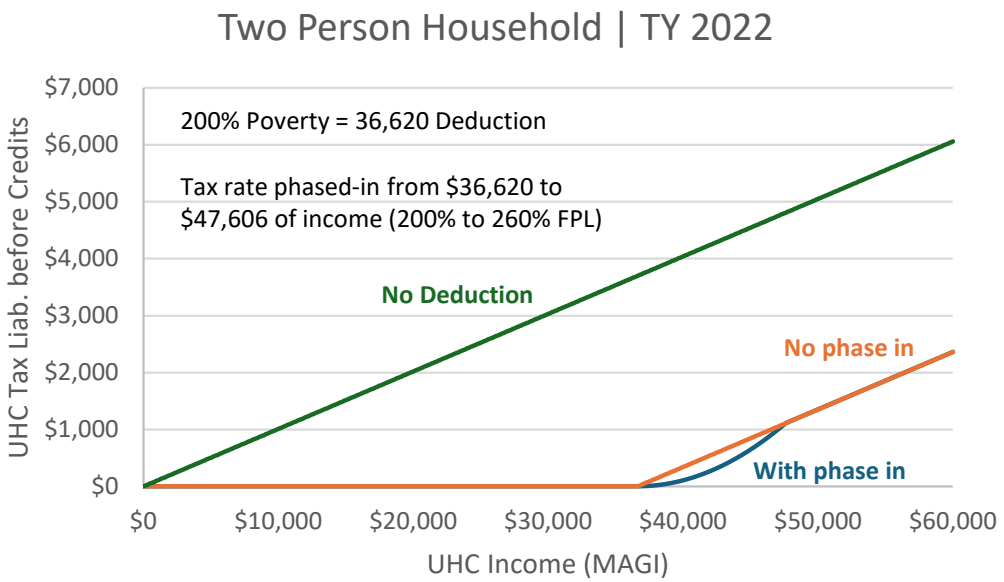
Health Care Personal Income Tax (HCPIT)

- Tax Base

  Federal adjusted gross income (AGI) – OR exempt Social Security – Federal pension income – U.S. interest & dividends

- Standard deduction = 200% of taxpayers Federal Poverty Level (FPL)
  - Calculated using tax information (i.e., household size is based on number of taxpayers and dependents on tax return)
  - Tax liability phased in from 200% - 260% of FPL

- Tax Credits
  - 50% × employer paid payroll tax
  - Medicare Part B Premiums



HCPIT | Tax Rate Changes | Tax Year 2032

- Interactive effects with payroll tax due to tax credit
- 1% HCPIT yields roughly $1.1B
- Scaled rates

	Tax Rate		
	12.0%	12.6%	13.9%
Tax ($B)	$13.1	$13.8	$15.4

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UHC Model Scenarios - Sept. Request

	---------- Personal Income Tax ----------			----- Employer Payroll Tax -----	
UHC Model Name	**UHC PIT Description**	**Revenue 2032 $B**	**Effective Tax Rate**	**EPT Description**	**Revenue 2032 $B**
Model 1	0-200% FPL 0.0% | >200% FPL 12.00%	$15.3	5.5%	0-500K ---------- 0.00% ≥500K ---------- 9.89%	$15.5
Model 1 No EPT credit		$22.0	7.9%		
Model 2	0-200% FPL 0.0% | >200% FPL 12.05%	$14.0	5.0%	0-500K --------- 0.0% 500K-10M ----- 9.6% ≥10M ---------- 14.0%	$19.2
Model 2 No EPT credit		$22.1	8.0%		
Model 3	0-200% FPL 0.0% | >200% FPL 7.69%	$6.8	2.4%	0-500K --------- 0.0% 500K-20M ----- 9.6% ≥20M ---------- 14.0%	$18.4
Model 3 No EPT credit		$14.1	5.1%		
Model 4	0-138% FPL ---------- 0.0% 138%-200% ---------- 3.0% 200%-65K/130K ---------- 9.0% 65K/130K-130K/260K -- 12.0% 130K/260K+ ---------- 14.3%	$14.1	5.1%	0-500K --------- 0.0% 500K-10M ----- 9.6% ≥10M ---------- 14.0%	$19.2
Model 4 No EPT credit		$22.2	8.0%		
Model 5	0-138% FPL ---------- 0.0% 138%-200% ---------- 2.0% 200%-65K/130K ---------- 4.78% 65K/130K-130K/260K ---- 7.0% 130K/260K-260K/520K -- 9.0% 260K/520K+ ---------- 12.0%	$7.1	2.6%	0-500K --------- 0.0% 500K-10M ----- 9.6% ≥10M ---------- 14.0%	$19.2
Model 5 no EPT credit		$14.1	5.1%		

Alternative Scenarios

		Revenue	Effective		Revenue
UHC PIT Model Name	**UHC PIT Description**	**2032 $B**	**Tax Rate**	**EPT Model & Description**	**2032 $B**
Model 1 +1% point	12% → 13%	$17.1	6.2%	Model 2 - 13% over 10M	$18.2
Model 2 +1% point	12.05% → 13.05%	$15.8	5.7%	Model 2 - 15% over 10M	$20.1
Model 3 +1% point	7.69% → 8.69%	$8.4	3.0%	Model 3 - 13% over 20M	$17.7
Model 4 +1% point	+1% percentage point to each rate	$16.1	5.8%	Model 3 - 15% over 20M	$19.2
Model 5 +1% point	+1% percentage point to each rate	$8.6	3.1%		