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To: Senator Mark Hass and Representative Phil Barnhart, Co-Chairs, Joint Committee on Tax Credits

From: Senator Lee Beyer, Chair and Senator Fred Girod, Vice-Chair, Committee on Business and Transportation

Date: April 23, 2015

Subj: Senate Bill 52 – Oregon Life and Health IGA Assessments

The Senate Business and Transportation Committee heard Senate Bill 52 and recommended that the tax credit should be continued due to its infrequent use, low cost and benefit to insurance beneficiaries. The measure was properly noticed and scheduled as well as part of a public hearing. The American Council of Life Insurers, a trade association with approximately 288 member companies, appeared in support of the measure.

Below are responses to questions posed in Appendix D, on page 101 of the Legislative Revenue Office's Research Report No. 2-15, *2016 Expiring Tax Credits* (RR 2-15). The responses are based upon the report's findings and the Business and Transportation Committee's deliberations.

- **What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?**

  The public policy purpose is to allow insurance companies a credit against corporate income taxes for certain assessments paid to the Oregon Life and Health Insurance Guaranty Association (OLHIGA). The assessments are used to pay claims against insurers who have gone out of business (these are known as class B assessments). The allowed credit is taken over five years and equals twenty percent of the assessment for each year beginning with the year in which the assessment was paid.

  The OLHIGA was established in 1975 and is composed of all insurers licensed to sell life insurance, accident and health insurance and individual annuities in Oregon.

Membership is mandatory. From 2000 to 2008, the number of claimants steady declined from approximately 300 to 20. Between 2009 to 2011 (Data is not available for 2012), fewer than five corporations claimed the credit. Consequently, the revenue impact averaged approximately $1,000 since 2007.

- **Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?**

  The primary beneficiaries include:
  1. Insurance companies
  2. Policy beneficiaries whose insurer becomes insolvent.

  This tax credit has been used rarely in recent years.

- **What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?**

  Sunset may increase the cost of insurance policies.

  Depending on the situations of the affected insurance companies, use of this tax credit may increase up to $60,000 per year for five years.

- **What background information on the effectiveness of this type of credit is available from other states?**

  No other state offers a similar tax credit.[i]

- **Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?**

  The administrative costs of this tax credit are born by Department of Consumer and Business Services, Department of Revenue and insurance companies. Given the infrequent use of the tax credit, these costs are likely to be marginal and vary over time.

- **What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**

  If the assessment for any particular company is small enough, they may simply claim it as an expense in 2015 rather than claiming a relatively small credit for five years.

- **Could this credit be modified to make it more effective and/or efficient? If so, how?**

  One of the modifications that could be made is the number of years over which the tax credit is claimed.

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[i] Since the Senate Business and Transportation hearing on SB 52, John Powell, John Powell & Associates, brought this data point to the attention of the Legislative Review Office because he believes there are other states that have a similar tax credit.