FINANCE & REVENUE TECHNICAL ADVISORY GROUP: PROPOSAL

May 27, 2021

INTRODUCTION

The Finance & Revenue Technical Advisory Group (TAG) of the Task Force on Universal Health Care is charged with assessing and offering guidance on revenue options to fund the SB 770 Health Care for All Oregon Plan (the Plan). The TAG had a total of 9 meetings between November 2020 and May 2021, in which they identified a working list of principles to guide assessment of new revenue packages (Figure 1), considered the constraints of estimating cost, discussed potential revenue methods and designed revenue package option for Task Force consideration to fund the Plan.

PRINCIPLES

The TAG developed the following working list of principles to guide their assessment of revenue package options.

Progressive	The tax rate increases as the taxpayer's ability to pay (as determined by their income) increases. In reviewing packages, the TAG will consider: how progressive is the revenue source and is there a way to make it less regressive/more progressive?
Easy to understand	Is the new revenue stream easy to understand by those having to pay it?
Stable	A stable financing system is one that can weather economic and demographic changes. No source is stable; they all change over time based on economic activity or population changes. In reviewing packages, the TAG will consider: what can be done to increase overall stability of the revenue package?
Permanent	Is the revenue package as permanent as anything? For example, the TAG would prefer to eliminate sunset clauses on relevant revenue streams.
Predictable	Can government officials fairly predict how much revenue will be generated?
Scalable & Adequate	If universal health care implementation is over a period of time, are revenue sources scalable to meet the revenue needed for full implementation?
ERISA considerations	We want to minimize vulnerability to ERISA court challenges and may want automatic triggers on certain revenue streams to mitigate impact if there is an effective challenge.
Dedicated trust fund	As opposed to pulling from the general fund, the TAG seeks a dedicated trust fund that is not subject to the state kicker to support the Plan.

Maximize federal dollars	Consider opportunities to maximize federal match dollars before turning to new revenue streams.

CONSTRAINTS

What is presented here are estimates based on data easily available to staff from a variety of publicly available sources, including a 2018 RAND Corporation evaluation of options for financing health care in Oregon which included a single payer model as one option[1], and the Oregon Legislative Revenue Office's Basic Facts 2020[2]. The TAG's revenue goal and estimates of revenues from different sources are preliminary and cannot be relied upon for making final decisions. The TAG's ability to develop more accurate and detailed cost and revenue estimates is constrained by several factors. These constraints include:

1. **Legislative authority & funding:** SB 770 did not allocate funding for the Legislative Revenue Office (LRO) to generate estimates of revenue package proposals, so input and assistance is necessarily limited, especially during a legislative session.
2. **Ambiguities related to Plan eligibility and benefits:**
    a. The Task Force's Eligibility, Benefits and Affordability (EBA) TAG recommended that visitors be included in the Plan on a more limited basis (coverage of acute injuries and other necessary care). This inclusion of visitors complicates estimates because comparable data on this population does not exist for the purposes of estimating costs
    b. When estimating the cost of a single payer system in Oregon, the RAND report used the essential health benefits benchmark plan and applied some cost sharing. The benefits package currently under consideration by the Task Force is far more comprehensive than the state benchmark plan and is largely free of cost sharing; this design has not been incorporated into any single payer estimates, and requires further refinement before it can be used to estimate cost.
3. **Administrative cost savings**: It is expected that the Plan will yield certain administrative cost savings. However, the extent of these savings is unknown and~~, given the lack of detail advanced,~~ extremely difficult to predict accurately at this time.
4. **Timing:**
    a. Data is not scaled to 2021 projections, or to projections of a future and more likely implementation year. Like data used by other TAGs, some of the underlying data comes from different years. COVID-19 health expenditures and the impact COVID-19 had on the economy have not been factored, nor have federal tax law changes, or Oregon's response to those changes. When it is time for a final decision by the legislature, projections will be made on cost and revenue sides for the year they choose for implementation and those may vary significantly from the numbers the Task Force is working with.
    b. Since the TAGs have been operating concurrently, the Finance & Revenue TAG has had to move forward on revenue options without having time or ability to comprehensively analyze and incorporate the financial implications of other TAG proposals.

[1] White, Chapin, Christine Eibner, Jodi L. Liu, Carter C. Price, Nora Leibowitz, Gretchen Morley, Jeanene Smith, Tina Edlund, and Jack Meyer, Financing Health Care in Oregon: Four Policy Options. Santa Monica, CA: RAND Corporation, 2017. https://www.rand.org/pubs/presentations/PT162.html
[2] https://www.oregonlegislature.gov/lro/Documents/Basic%20Facts%202020b.pdf

~~b.~~c. The TAG, like the rest of the Task Force, faced significant time constraints in developing this proposal since the timeline of the Task Force was compressed due to COVID-19.

The RAND report and other studies have illustrated that single payer plans cost as much or less than the status quo. The TAG therefore decided it would be reasonable to start with the estimates of the current healthcare system as a projection for the cost of a single payer system. Based on the RAND report estimates of the cost of the current system, and the estimated total of federal and state dollars that could theoretically be applied to the system pending ~~waiver~~ federal administrative and congressional approvals, the TAG determined the state would need to raise at minimum an additional $14 billion, and some on the TAG feel more comfortable with an assumption of $20 billion (or more) to account for some of the unknowns listed above.

Revenue Method Parameters

The TAG considered a range of revenue methods, and ultimately proposes a package that incorporates a new~~n~~ ~~increase to the~~ payroll tax, an increase to ~~and~~ the personal income tax, as well as the creation of a sales tax. They propose the following parameters guide development of these three taxes:

- **Payroll tax:**
  - Applies a flat rate on wages~~increase~~ up to the Federal Insurance Contributions Act (FICA) limit (currently ~$138,000, subject to annual increase), and ~~a~~ higher ~~progressive~~ rates on income over the FICA limit. Rates will rise as income increases over the FICA limit, adding progressivity to the tax.
    - Since the federal government may revise or eliminate the FICA limit, the legislature should consider how to best frame this parameter so as not to eliminate its intent in the case of federal changes.
  - Like traditional payroll taxes, this method would apply only to wage-based income. Non-wage income, like capital gains ~~investments~~ and dividends, would continue to be taxed under the income tax component of this proposal.
  - The payroll tax is to be assessed on the employer. If it is deemed that this would increase the risk of an ERISA challenge, or if there is a successful ERISA challenge, this parameter would shift and the employee would be responsible for paying the tax.
    - The TAG had extensive discussions about this parameter. There is a concern that having the payroll tax paid by employers would increase the risk of businesses taking legal action against the state, claiming violation of the Employee Retirement Income Security Act (ERISA). Since economists suggest an employer-paid payroll tax would be borne at least in part by employees anyway, some members argued the TAG should be agnostic on who would pay this tax.[3,4,5] Others argued that the Plan is vulnerable to an ERISA challenge regardless of who pays the payroll tax. These members proposed that employers would be getting a windfall under the Plan, because employers would no longer need to pay for employer sponsored insurance, so employers should pay this tax to ensure they are paying their fair share. If the employers do not pay the payroll tax and also stop providing employer-provided insurance, businesses income tax revenues will go up because taxable income will increase due to having fewer expenses. The parameter as stated attempts to address these concerns.
  - It applies to all firms, rather than firms based on a particular size as was used in the RAND analysis.
  - The base payroll tax rate suggested by the TAG is believed to be less than ~~is based on~~ the current cost of health insurance to employers who provide it.

[3] https://www.taxpolicycenter.org/resources/tpcs-microsimulation-model-faq
[4] https://www.taxpolicycenter.org/briefing-book/how-are-federal-taxes-distributed
[5] https://www.taxpolicycenter.org/taxvox/most-households-its-about-payroll-tax-not-income-tax

- **Income tax:**
    - Increases rates for all households with income~~everyone~~ above a moderately low eligibility threshold (300% FPL, or approximately $79,000 for a family of 4).
    - It establishes at least one new bracket for high income earners (e.g., household income over $200k is taxed at 13%)

- **Sales tax:**
    - The rate is no more than 6%
        - This rate was selected to be in alignment with the sales taxes in neighboring states.
    - It applies to all goods and services except "essential goods and services," with a narrow definition of "essential goods and services." (e.g., groceries & utilities)
    - It includes a refundable sales tax credit to decrease the burden on low-income families
        - Individuals and families earning below 200% FPL would be eligible for a 100% credit of the sales tax based on family size; those earning up to 300% FPL would have a partial credit

The TAG had extensive discussions about whether to include a sales tax in the proposed revenue package. Opponents argued sales taxes are too regressive, even with a credit for low-income individuals. They additionally noted that Oregon voters have regularly rejected a sales tax, so inclusion of a sales tax in the package would decrease the likelihood of electoral passage. However, proponents made three key arguments. First, a package that includes only a payroll tax and income tax would require such high rate increases to generate sufficient revenue that it would not be tenable among voters either. Second, they argued that sales taxes add stability and predictability to a tax package that would be otherwise unstable and unpredictable. Third, sales taxes generate revenue from visitors which would be important to consider if the Plan includes coverage for that population.

- **Order of operations:** When determining rates for the full package, the payroll tax rates should be set first, followed by the income tax rates. If it is determined that additional revenue from a sales tax is needed, the sales tax rate should be set at no more than 6%, and further increases to the payroll and income taxes s~~hould be applied~~ for high income earners should be considered in order to generate the revenue needed.

Sample Revenue Package

The Institute on Taxation and Economic Policy (ITEP) developed ~~loose~~ preliminary rough revenue and distributional estimates of a sample revenue package to inform discussion based on the parameters provided by the TAG. The ITEP estimates were based on:

1. Sales Tax of 6%, excluding food/shelter
    a. Include phased-out~~graduated~~ low-income sales tax credit (100% credit under FPL, half credit up to ~200% FPL, one-quarter credit up to ~300% FPL, no credit above 300% FPL)
2. Payroll Tax on wage income only
    a. 5% on wages below FICA limit (currently $137,700)
    b. 7% on wages from FICA limit to 2x of FICA limit
    c. 9% on wages >2x FICA limit
3. Income Tax–Get us to $20 billion with:
    a. New tax brackets and increased rates for upper incomes
    b. No tax increase for low income taxpayers
    c. Broad tax increase on all high-income taxpayers

The following data estimates “who pays” in a package with the above sample parameters. These are preliminary draft numbers to give perspective on the progressivity/regressivity of the three revenue options, and a rough idea of the overall revenue impacts of each option.

Results. Estimated combined impact of the package:

Method	Rate Increase	Estimate Revenue Generated
Sales Tax with credit for low-income taxpayers	6%	$5.91 billion
Progressive Payroll Tax	5% - 9%	$5.48 billion
Progressive Income Tax	5% - 30%	$5.24 billion
	Estimated Total	$16.64 billion

The analysis indicated that, overall, this would be a progressive revenue package [Figure 1][6]. The sales tax credit reduces regressivity of the sales tax substantially [Figure 2]. Because taxpayers have non-wage income, the percent impact of the payroll tax on overall income is lower than the rate of the payroll tax itself [Figure 3]. The state’s income tax would become ~~much~~ significantly more progressive [Figure 4]. To generate more revenue, income tax rates could increase even more on middle- and high-income taxpayers, starting as in the ITEP ~~, for~~ example, at $50k.

The figures below are based on the ITEP modeling estimates provided to the TAG.

[6] The ITEP data shown in Figure 1 is progressive at the very high-end of earnings (top 1% of earners); a more progressive approach may be needed which would gradually increase tax burden on upper middle class and higher earners below the top 1% as well.

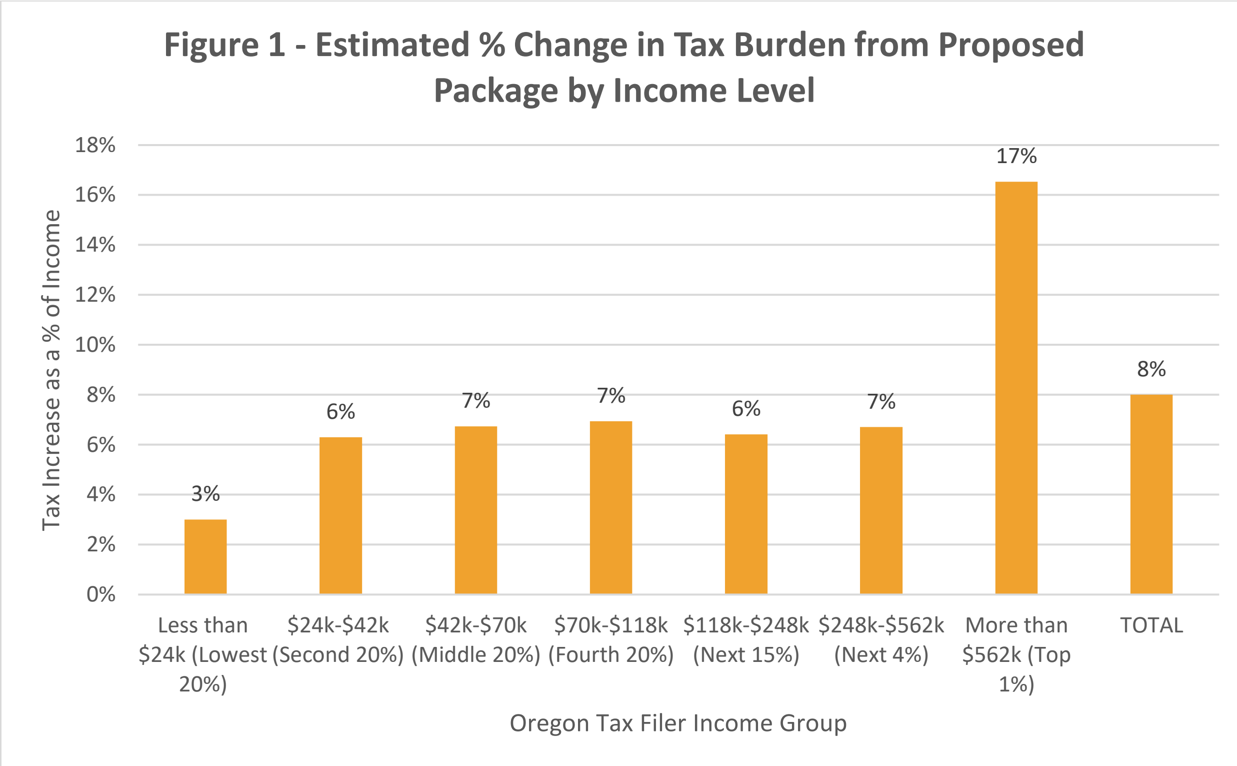
Figure 1 - Estimated % Change in Tax Burden from Proposed Package by Income Level
Tax Increase as a % of Income
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
3%
6%
7%
7%
6%
7%
17%
8%
Less than $24k (Lowest 20%)
$24k-$42k (Second 20%)
$42k-$70k (Middle 20%)
$70k-$118k (Fourth 20%)
$118k-$248k (Next 15%)
$248k-$562k (Next 4%)
More than $562k (Top 1%)
TOTAL
Oregon Tax Filer Income Group

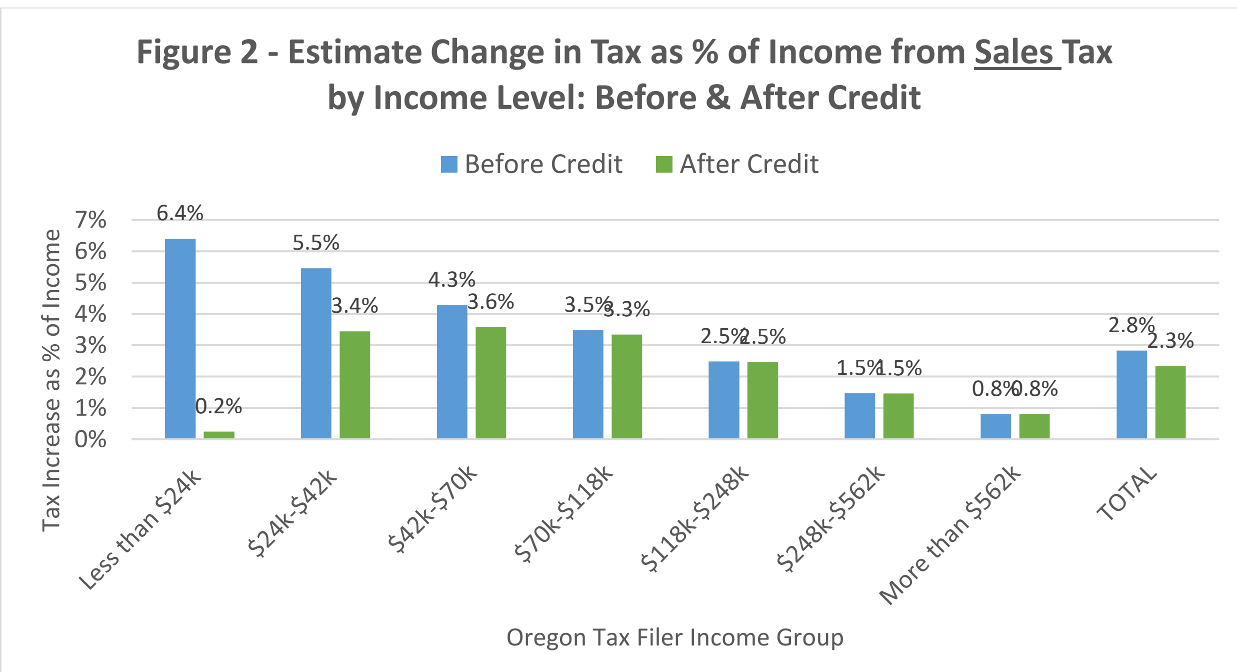
Figure 2 - Estimate Change in Tax as % of Income from Sales Tax by Income Level: Before & After Credit
Before Credit
After Credit
Tax Increase as % of Income
7%
6%
5%
4%
3%
2%
1%
0%
6.4%
0.2%
5.5%
3.4%
4.3%
3.6%
3.5%
3.3%
2.5%
2.5%
1.5%
1.5%
0.8%
0.8%
2.8%
2.3%
Less than $24k
$24k-$42k
$42k-$70k
$70k-$118k
$118k-$248k
$248k-$562k
More than $562k
TOTAL
Oregon Tax Filer Income Group

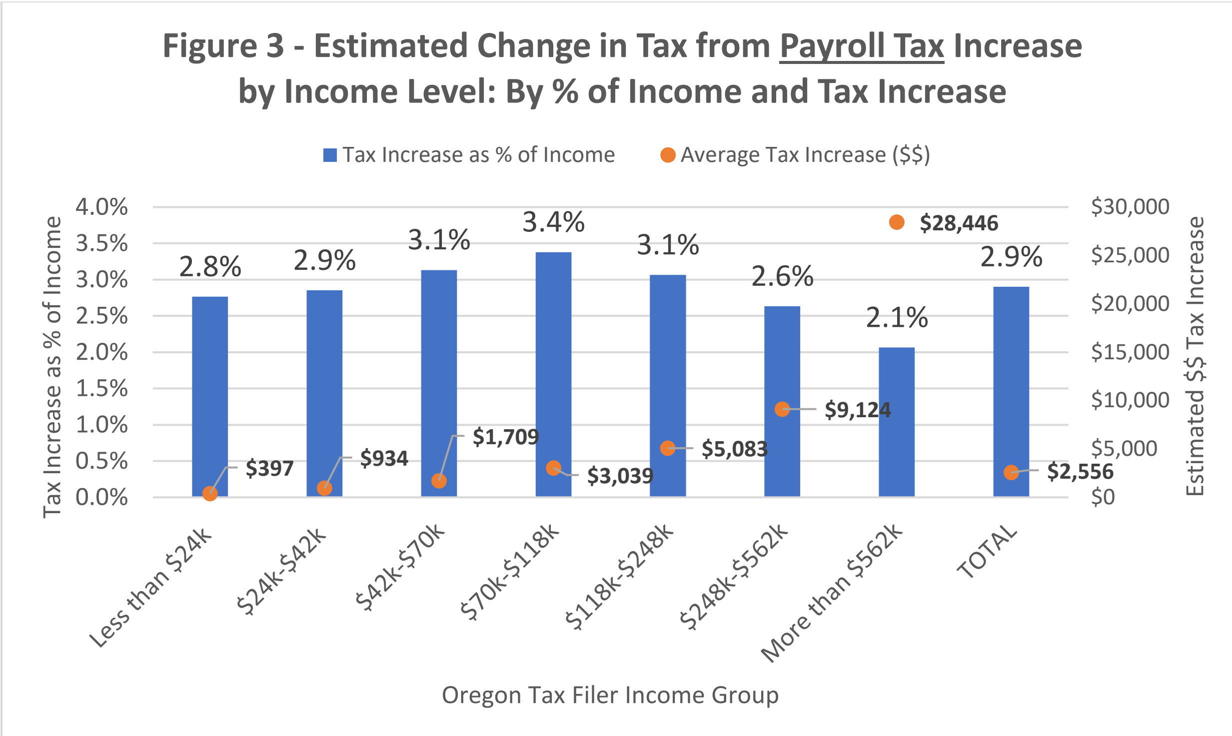
Figure 3 - Estimated Change in Tax from Payroll Tax Increase by Income Level: By % of Income and Tax Increase
Tax Increase as % of Income
Average Tax Increase ($$)
Tax Increase as % of Income
Estimated $$ Tax Increase
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
2.8%
2.9%
3.1%
3.4%
3.1%
2.6%
2.1%
2.9%
$397
$934
$1,709
$3,039
$5,083
$9,124
$28,446
$2,556
Less than $24k
$24k-$42k
$42k-$70k
$70k-$118k
$118k-$248k
$248k-$562k
More than $562k
TOTAL
Oregon Tax Filer Income Group

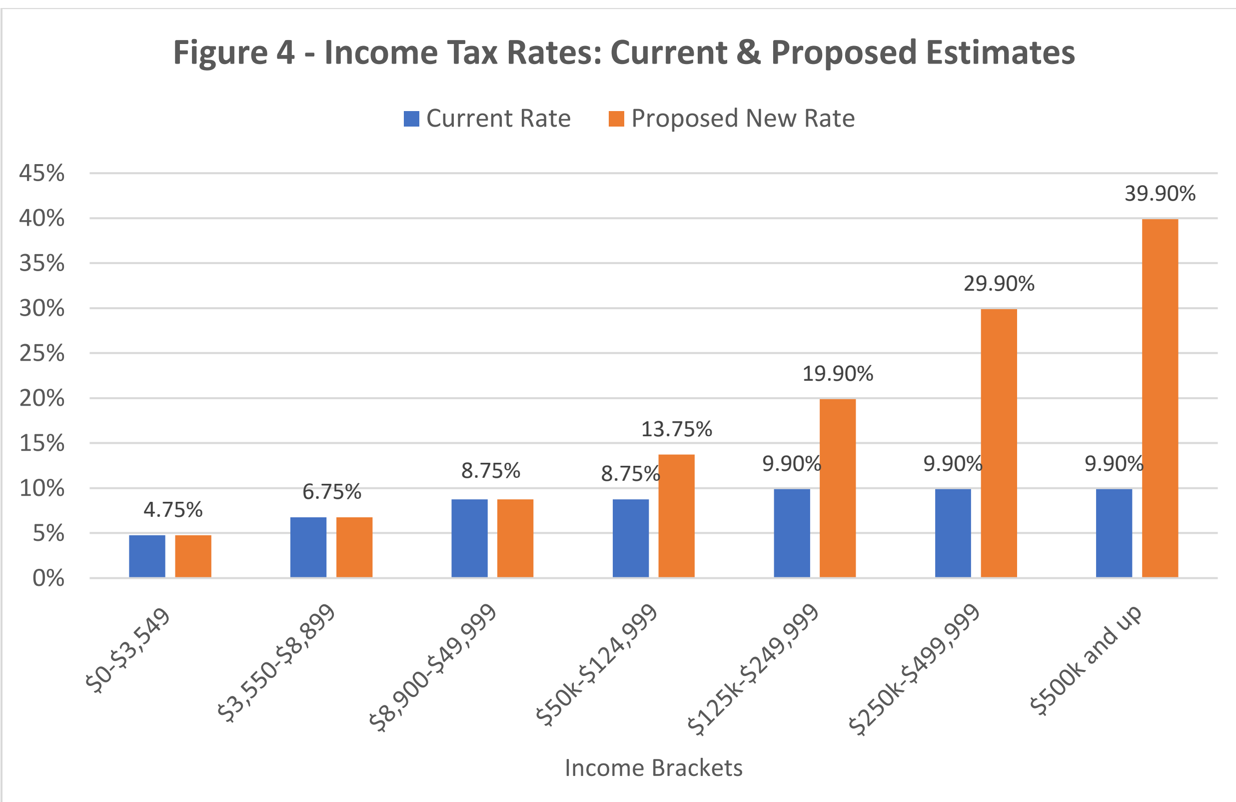
Figure 4 - Income Tax Rates: Current & Proposed Estimates
Current Rate
Proposed New Rate
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
4.75%
6.75%
8.75%
8.75%
13.75%
9.90%
19.90%
9.90%
29.90%
9.90%
39.90%
$0-$3,549
$3,550-$8,899
$8,900-$49,999
$50k-$124,999
$125k-$249,999
$250k-$499,999
$500k and up
Income Brackets

Next Steps

If the Task Force is granted an extension, the Finance and Revenue TAG recommends that the benefits package should be refined and cost estimates specific to the Plan should be generated. Further, the Legislative Revenue Office (LRO) should be funded to provide ~~conduct an~~ analysis of the proposed revenue package ideas to estimate the amount of revenue it would generate and distribution. If time and resources permit, additional experts should be brought in to consult on the proposal. Stakeholders should also be engaged to give feedback on the proposal.