

SB 1542 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

Prepared By: Jonathan Hart, Economist

Sub-Referral To: Joint Committee On Ways and Means

Meeting Dates: 2/12

WHAT THE MEASURE DOES:

Increases the amount of taxable commercial activity exempt from the Corporate Activity Tax, and the commercial activity threshold for filing a tax return from \$1 million to \$5 million. Creates Corporate Activity Tax exemption for receipts from reimbursed health care services for recipients of medical assistance under ORS chapter 414, Medicare, the Public Employee's Benefit Board, the Oregon Educator's Benefit Board, the Children's Health Insurance Program, or the U.S. Department of Defense under a TRICARE contract. Applies to tax years beginning on or after January 1, 2025. Takes effect 91 days following adjournment sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Businesses are required to file a Corporate Activity Tax (CAT) return if their commercial activity exceeds \$1 million. If a business has taxable commercial activity over \$1 million, it owes a flat \$250 tax plus tax at the 0.57% tax rate for taxable commercial activity over \$1 million.

Healthcare-related commercial activity is generally taxable under Oregon's CAT unless a specific exemption is in statute for either the commercial activity or the business receiving payment. Oregon statutes currently define several relevant entities that are not subject to the CAT, including nonprofits (e.g., 501(c) corporations), government providers, and hospitals and other providers subject to Oregon medical provider taxes. Additionally, receipts from prescription drugs sold at pharmacies with nine or fewer locations, and receipts of residential care facilities or in-home care agencies received as compensation for providing service to a medical assistance or Medicare recipient are currently excluded.

The latest available data from the Centers for Medicare and Medicaid Studies indicate that for 2020, there was \$42.3 billion spent on personal health care in Oregon. A significant portion of commercial activity related to health care is exempt, either because the recipient is an exempt entity or because the taxpayer's commercial activity is below the taxability threshold of \$1 million in commercial activity. Overall, more than two-thirds of health care commercial activity in Oregon is currently exempt.

This bill would increase the threshold for filing a CAT return and the threshold for taxability under the CAT from \$1 million to \$5 million. The bill would also add categories of transactions exempt from the CAT if paid by specified government-funded health insurance programs.