



## LEGISLATIVE REVENUE OFFICE

State Capitol Building  
900 Court St. NE, Room H-197  
Salem, Oregon 97301

Research Brief

(503) 986-1266

FAX (503) 986-1770

<http://www.leg.state.or.us/comm/lro/home.htm>

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# BALLOT MEASURE 23

## HEALTH CARE FINANCE PLAN

### Brief Description of the Ballot Measure

Ballot Measure 23 has been referred by initiative petition to Oregon voters in the 2002 November general election. This statutory measure finances a state health care program that would be administered by a new public non-profit corporation called the Oregon Health Care Finance Board. If this measure receives voter approval, all Oregonians who choose to participate in the state health care plan could receive health care coverage. This new health care plan would be financed by a personal income and a new payroll tax. Full implementation of the financing of the health care plan would begin in 2005.

This report on Ballot Measure 23 only analyzes the potential tax revenue authority the Oregon Health Care Finance Board could impose. It does not address the health care costs of providing the covered services outlined in the measure. The Health Care Finance Board has the authority to annually set progressive personal income and payroll tax rates up to maximum limits outlined in the measure. In addition, the board would only have authority to impose taxes up to the maximum amount of the health care costs provided to Oregonians. The new personal income tax would be paid by individuals and businesses would pay the payroll tax.

Table 1 below outlines the maximum tax authority limits that Measure 23 establishes if passed by voters. The start-up costs for the health care plan would be paid through a payroll tax and assessed for 2 years beginning tax year 2003 at a rate of 1% of total payroll. The maximum tax authority for the start-up costs would be approximately \$600 million per year. Beginning tax year 2005, the maximum amount of personal income taxes which can be imposed is 3.9% of total personal income annually. In 2005, the maximum personal income tax limit would be \$4.6 billion and rise to \$5.9 billion by 2009. The payroll tax is limited each year to 9.5% of total payroll. Beginning tax year 2005, the maximum limit on payroll taxes would be \$6 billion and by 2009 the maximum payroll tax would be \$7.5 billion. The Oregon Health Care Finance Board would have

**TABLE 1: MAXIMUM TAX AUTHORITY LIMITS UNDER MEASURE 23**

| (billions) | MAXIMUM TAX AUTHORITY |         |        |
|------------|-----------------------|---------|--------|
| Tax Year   | Personal Income       | Payroll | TOTAL  |
| 2003       |                       | \$0.6   | \$0.6  |
| 2004       |                       | \$0.6   | \$0.6  |
| 2005       | \$4.6                 | \$6.0   | \$10.6 |
| 2006       | \$4.9                 | \$6.3   | \$11.2 |
| 2007       | \$5.2                 | \$6.7   | \$11.9 |
| 2008       | \$5.6                 | \$7.1   | \$12.7 |
| 2009       | \$5.9                 | \$7.5   | \$13.4 |

Based on the Sept. 2002 DAS Economic and Revenue Forecast

tax authority for a total of \$10.6 billion when the measure would first be implemented in tax year 2005 and that tax authority would rise to \$13.4 billion by 2009. These estimates are based on the Oregon Office of Economic Analysis - September 2002 Economic and Revenue forecast.

Measure 23 sets maximum tax and rate limits but allows the Oregon Health Care Finance Board the flexibility to determine the tax rate structure for both the personal income and payroll taxes. The next two sections of this research brief outline a personal income and payroll tax proposal which is estimated to generate the annual maximum tax authority allowed for each tax. These proposals, in Tables 2 and 4, are examples of tax structures suitable to achieve that maximum tax limit.

**Personal Income Tax**

The Oregon Health Care Finance Board would be charged with setting the tax rates annually which generate tax revenues which do not exceed the maximum personal income tax limit of 3.9% of Oregon’s total personal income. The tax rate structure is to be progressive and the new personal income tax rates for health care services can not exceed 8%. Oregonians, with adjusted gross income below 150% of the poverty level, would be exempt from paying the new income tax. In tax year 2005, it is estimated that 412,837 income tax filers, or 25% of all income tax filers, would not pay any of the increase in taxes for financing the state health care services. If the proposed progressive tax rate structure specified in Table 2 was put in place beginning 2005, it would generate close to the maximum limit for personal income tax revenue. This new proposed personal income tax for health care represents a 89% increase in personal income taxes from current law. In 2005, it is estimated that Oregonians will pay \$5.1 billion in personal income tax and if Measure 23 passes, Oregonians will pay an additional \$4.6 billion for a total of \$9.7 billion in personal income taxes. In tax years 2006-2009, the proposed Oregon tax increase would generate \$4.9, \$5.2, \$5.6 and \$5.9 billion respectively.

**TABLE 2: PROPOSED TAX RATES FOR FINANCING HEALTH CARE SERVICES**

| <b>Single Filers Taxable Income</b> | <b>Joint and Head of Household Filers Taxable Income</b> | <b>Proposed Tax Rate</b> |
|-------------------------------------|----------------------------------------------------------|--------------------------|
| 0 - \$1,500                         | 0 - \$3,000                                              | 5.5%                     |
| \$1,500 - \$3,000                   | \$3,000 - \$6,000                                        | 6.5%                     |
| \$3,000 - \$5,000                   | \$6,000 - \$10,000                                       | 7.5%                     |
| Above \$5,000                       | Above \$10,000                                           | 8.0%                     |

Annually, the majority of the income tax returns filed in Oregon, (56%), are from individuals with gross income less than \$40,000. A large number of the low income returns are single income tax filers, like students and seniors. The joint income tax filers make up a larger portion of the higher income groups. In 2005, it is estimated that 67% of Oregon’s personal income tax will be paid by individuals with total income above \$75,000.

The overall tax burden of this new personal income tax for health care in Oregon is illustrated in Table 3. If Oregon has higher income taxes from the passage of Measure 23, Oregonians will also have a larger state income tax deduction on their federal income taxes which will lower federal income taxes. The average tax increase and tax burden estimates take into consideration not only the increase in Oregon personal income taxes but also the reduction in future federal income taxes. The total tax increase on average for all tax returns in Oregon would be 4.6% of gross income. Since the majority of the low-income tax filers are exempt from paying this tax, the total tax increase as a percent of gross income for low-income tax filers is less than the total tax burden for all returns. In 2005, all tax returns on average would have an increase of \$2,415 if

Measure 23 passes. On average single income tax filers would have an increase of \$1,323. Families, filing joint tax returns, would have an increase of \$3,336 on average in 2005. These personal income tax estimates for Measure 23 do not take into consideration the credit allowed, under certain conditions, for existing health insurance premiums.

**TABLE 3: BREAKDOWN BY GROSS INCOME OF A PROPOSED M23 PERSONAL INCOME TAX**

| TAX YEAR 2005      |                   |                                |                                                          |                                                     |                |                |
|--------------------|-------------------|--------------------------------|----------------------------------------------------------|-----------------------------------------------------|----------------|----------------|
| GROSS INCOME       | TOTAL TAX RETURNS | OREGON TAX INCREASE (millions) | TOTAL OREGON + FEDERAL TAX INCREASE AS % OF GROSS INCOME | AVERAGE INCREASE IN OREGON + FEDERAL TAX PER RETURN |                |                |
|                    |                   |                                |                                                          | ALL RETURNS                                         | SINGLE         | FAMILY         |
| LESS THAN 10,000   | 257,751           | 9.7                            | 1.7%                                                     | 37.5                                                | 45.6           | 0              |
| 10,000 TO 20,000   | 266,911           | 95.7                           | 2.4%                                                     | 355.6                                               | 551.5          | 45.1           |
| 20,000 TO 30,000   | 215,707           | 261.8                          | 4.8%                                                     | 1,180.6                                             | 1,406.2        | 865.8          |
| 30,000 TO 40,000   | 167,304           | 326.4                          | 5.3%                                                     | 1,843.5                                             | 1,897.3        | 1,780.3        |
| 40,000 TO 50,000   | 137,076           | 350.3                          | 5.1%                                                     | 2,304.0                                             | 2,167.3        | 2,389.5        |
| 50,000 TO 75,000   | 219,448           | 758.5                          | 5.0%                                                     | 2,999.7                                             | 2,660.6        | 3,118.2        |
| 75,000 TO 100,000  | 202,872           | 1,009.4                        | 5.0%                                                     | 4,139.8                                             | 4,007.7        | 4,159.2        |
| 100,000 TO 200,000 | 118,890           | 983.5                          | 5.2%                                                     | 6,796.9                                             | 7,159.0        | 6,754.5        |
| 200,000 AND OVER   | 38,815            | 764.3                          | 3.4%                                                     | 16,317.5                                            | 16,848.2       | 16,245.7       |
| <b>STATE</b>       | <b>1,624,774</b>  | <b>4,559.6</b>                 | <b>4.6%</b>                                              | <b>2,414.5</b>                                      | <b>1,323.0</b> | <b>3,335.6</b> |

**Payroll Tax**

Annually, the Oregon Health Care Finance Board would determine a payroll tax structure which does not exceed the maximum payroll tax revenue limit of 9.5% of Oregon’s total payroll. This payroll tax will be paid by private businesses, schools as well as state and local governments. Like the personal income tax, the payroll tax structure must also be progressive based on total payroll and the tax rates must be between 3% and 11.5%. Table 4 illustrates a proposed

**TABLE 4: PROPOSED PAYROLL TAX RATES FOR MEASURE 23**

|                            | Progressive Payroll |
|----------------------------|---------------------|
| Total Payroll              | Tax Structure       |
| 0 - \$100,000              | 3.0%                |
| \$100,000 - \$500,000      | 6.0%                |
| \$500,000 - \$1 million    | 7.0%                |
| \$1 million - \$2 million  | 8.0%                |
| \$2 million - \$3 million  | 9.0%                |
| \$3 million - \$5 million  | 10.0%               |
| \$5 million - \$10 million | 11.0%               |
| Above \$10 million         | 11.5%               |

progressive payroll tax structure which would generate payroll tax revenues close to the maximum payroll tax limit as specified in Table 1.

The estimates for the payroll tax are based on the Oregon Employment Department total payroll data for 2001. Table 5 provides some background statistics on the private industry total payroll in Oregon and the amount of payroll tax which would be assessed given a proposed tax structure as outlined in Table 4. In 2005, it is estimated that 16% of Oregon businesses will have no payroll. In addition, 49% of Oregon businesses will be small with an average of 2 employees per company and total payrolls of less than \$100,000. 89% of all Oregon companies had total payrolls of \$500,000 or less and 94% of all businesses had payrolls less than \$1 million. Any new payroll tax will be paid primarily by the large businesses in Oregon because these companies have the largest portion of the total payroll in the state.

In 2005, it is estimated that a progressive payroll tax would generate \$5.5 billion from private businesses with \$3.5 billion (64%) being paid by businesses with \$10 million or more in annual total payroll. 790 companies statewide (.7% of all businesses) are estimated to have total payrolls above \$10 million in 2005. Small businesses, with total payrolls of less than \$100,000, would be paying an additional \$1,068 per year on average if Measure 23 passes. As the business's total payroll rises, so does the average payroll tax per company. For those businesses with total payroll between \$5 million and \$10 million, the average payroll tax per business would be \$647,136. For large companies with payrolls above \$10 million, the average payroll tax is biased upward due to a few companies paying a large payroll tax so the average payroll tax per business is significantly higher at \$4.4 million. Statewide, the average payroll tax per business would be \$46,155.

**TABLE 5: BREAKDOWN OF PRIVATE INDUSTRY PAYROLL TAX BY TOTAL PAYROLL – Tax Year 2005**

|                                           |                                | <b>Average<br/>Number Of</b> | <b>Total<br/>Payroll</b> | <b>Total<br/>Payroll</b>  | <b>Average<br/>Payroll Tax</b> |
|-------------------------------------------|--------------------------------|------------------------------|--------------------------|---------------------------|--------------------------------|
| <b>Private Industry Total<br/>Payroll</b> | <b>Number of<br/>Companies</b> | <b>Employees</b>             | <b>(billions)</b>        | <b>Tax<br/>(billions)</b> | <b>per company</b>             |
| 0                                         | 19,526                         | 0                            | 0.000                    | 0.000                     | 0                              |
| 0 - \$100,000                             | 58,663                         | 2                            | 2.089                    | 0.063                     | 1,068                          |
| \$100,000 - \$500,000                     | 28,091                         | 8                            | 6.271                    | 0.292                     | 10,394                         |
| \$500,000 - \$1 million                   | 5,732                          | 20                           | 4.005                    | 0.235                     | 40,914                         |
| \$1 million - \$2 million                 | 3,498                          | 39                           | 4.881                    | 0.328                     | 93,627                         |
| \$2 million - \$3 million                 | 1,277                          | 65                           | 3.122                    | 0.232                     | 182,058                        |
| \$3 million - \$5 million                 | 1,134                          | 101                          | 4.367                    | 0.360                     | 317,084                        |
| \$5 million - \$10 million                | 810                            | 173                          | 5.634                    | 0.524                     | 647,136                        |
| Above \$10 million                        | 790                            | 840                          | 31.446                   | 3.484                     | 4,410,127                      |
| <b>Private Industry STATEWIDE</b>         | <b>119,521</b>                 | <b>139</b>                   | <b>61.815</b>            | <b>5.516</b>              | <b>46,155</b>                  |

Estimates based on Oregon Employment Department Payroll Data for 2001

Figure 1 graphically illustrates the differences in the average payroll tax per private industry group for 2005. The average payroll tax per business ranges from \$19,275 for the construction industry to \$163,813 for manufacturing companies. The reason why the construction industry has the lowest average payroll tax per company is because there are a lot of small businesses in this industry. In contrast, some of the largest companies with largest payrolls per company in Oregon are in the manufacturing sector. Therefore, this industry's average payroll tax would be significantly higher than any other sectors in the state. The services industry pays the largest portion of the total payroll tax at 32%. The manufacturing industry pays 24%, the second largest portion of the total payroll tax. Together, these two industry groups, services and manufacturing, pay 56% of the total payroll tax.

**Figure 1: 2005 Average Payroll Tax Increase By Industry**

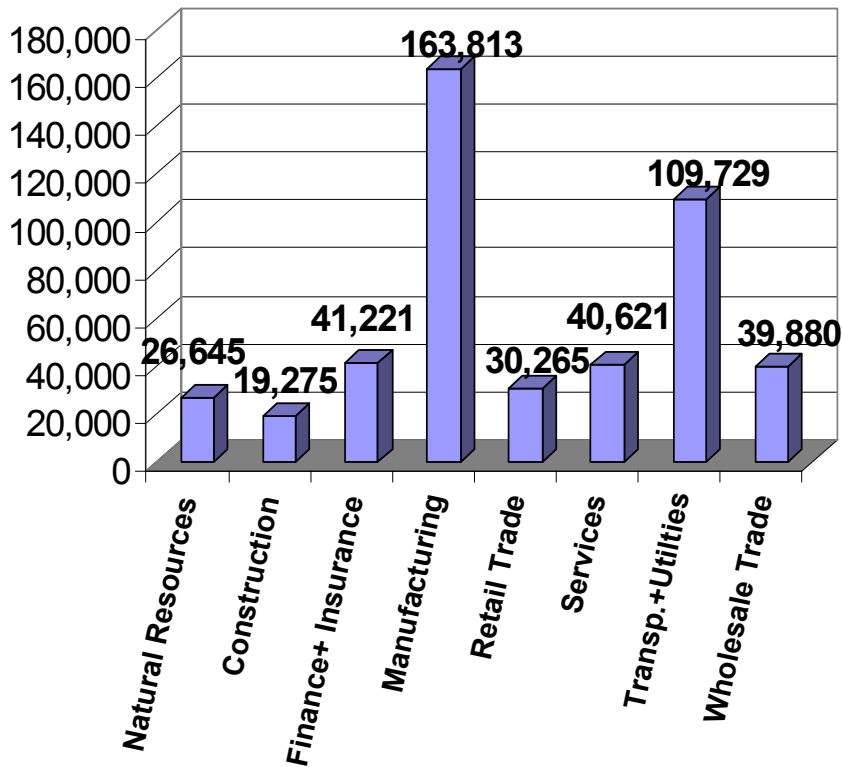


Table 6 below provides private industry as well as public agencies' payroll tax estimates for tax years 2005-2009. It is estimated that a proposed payroll tax, like that specified in Table 4, would generate a total of \$5.9 and \$6.3 billion in 2005 and 2006 respectively. These total payroll tax estimates are close to the maximum payroll tax amount allowed for tax years, 2005-2007. Beginning tax year 2008, this proposed progressive payroll tax structure would exceed the maximum payroll tax allowed. Consequently, adjustments in the payroll tax rates would need to be made by the Oregon Health Care Finance Board. Private industry is annually paying 94% of the estimated payroll tax for health care services and 6% of the tax would be paid by state and local governments.

**TABLE 6: TOTAL PAYROLL TAX ESTIMATES FOR TAX YEARS 2005-2009**

| Payroll Tax Estimates (billions)        | Tax Year |      |      |      |      |
|-----------------------------------------|----------|------|------|------|------|
|                                         | 2005     | 2006 | 2007 | 2008 | 2009 |
| <b>TOTAL Private Industry STATEWIDE</b> | 5.52     | 5.91 | 6.35 | 6.74 | 7.15 |
| <b>TOTAL Public Agencies STATEWIDE</b>  | 0.34     | 0.37 | 0.40 | 0.43 | 0.46 |
| <b>TOTAL PUBLIC + PRIVATE STATEWIDE</b> | 5.86     | 6.28 | 6.75 | 7.17 | 7.61 |

Estimates based on Oregon Employment Department Payroll Data for 2001