Finance Committee Report to the OHFB: Draft Recommendations

For Discussion Only

OHFB Finance Committee

April 16, 2008

Health Services Transaction Tax Proposal For Discussion

Health Services Transaction Tax: Value Proposition

- Broad-based, stable source of financing.
- Will grow at the same rate as health care spending.
- Can be used as a mechanism to help capture some of the cost-shift resulting from coverage of the uninsured.
- Revenue could be used to increase access to care by expanding coverage and increasing provider payments.

Overall Recommendations on Health Services Transaction Tax Design

- Gross receipts tax paid by all acute care providers, including hospitals and surgical centers and wholesale drug distributors
  - A set tax rate on all gross receipts for services provided to commercially insured patients
  - No requirement to put fee on bill and not required as a pass through to payers

[Note: For report, design consideration tables included at appendices]

Health Services Transaction Tax Exemptions

- Exempt:
  - Receipts from public programs (state and federal)
  - County programs designed to provide care for indigent
  - Mental health and long-term care facilities and community based services
  - Retail pharmacies
- Exemptions are similar to MinnesotaCare assessment

Payroll Tax Proposal for Discussion

Payroll Tax: Value Proposition

- Revenue can be used to extend coverage to those who are not covered by their employers.
- A payroll tax with a credit offers the opportunity to acknowledge those employers who are already contributing to the system.
- Employers are already paying for the cost shift, but by making it explicit, the system is more transparent, and the state can use the revenue from the payroll tax for federal match.

Overall Recommendation on Payroll Tax Design

- Payroll tax should be a broad based assessment paid by all employers as a cost of doing business (no exemptions)
- Levied as a flat % of total payroll
  - More progressive than lump sum tax
  - Note: Current modeling is using Social Security payroll as the base

[Note: For report, design consideration tables included at appendices]

Rationale for No Exemptions

- **The Committee recommends no exemptions**
  - **Small employers with 10 or fewer employees**
    - Rationale against exemption: Small employers represent many of the employers not offering insurance now; small employers pay all other taxes as cost of doing business
  - **Start-ups during the first year of business**
    - Rationale against exemption: Same arguments as those against exempting small employers
  - **Self-employed (do not pay payroll tax)**
    - Rationale for not imposing additional self-employment tax: Recognizes that they will be subject to individual mandate; without a payroll to tax, it would require additional self-employment tax

Credit for Employers Who Are Offering Coverage

- Scenario A: One-Tier Eligibility Test for Payroll Tax Credit
- Scenario B: Two-Tier Eligibility Test for Payroll Tax Credit

Scenario A: One-Tier Eligibility Test for Payroll Tax Credit

- Payroll tax = 5% of payroll (being modeled)
- Partial but significant credit to provide incentive for employers to provide health services to their employees
  - $1 for $1 credit on spending for health services up to 4.75% of payroll

How Scenario A Could Work

Employer Chooses

Pay full 5% payroll tax.

All employees go to the Exchange for coverage

Rationale: these employers are paying 5% tax to help finance subsidy structure

Claim spending on health services against 4.75% of payroll tax.

Workers eligible for employer coverage are NOT eligible for the Exchange.
(Rationale: these employers are not paying enough to help finance the subsidy structure.)
Workers NOT eligible for employer coverage ARE eligible for Exchange

Step 1: Pay 0.25% payroll tax

Step 2: Does aggregate employer health spending exceed 4.75% of payroll?

YES. No tax due (beyond basic 0.25%)

NO. Pay difference between spending and 4.75% of payroll (in addition to 0.25% basic tax).

Scenario 2: Two-Tier Eligibility Test for Payroll Tax Credit

Employer has two choices:

1) Pay tax = 5% of payroll with no credit ("non-offering" employers); OR

2) Claim $1 for $1 credit against 5% payroll tax for aggregate spending on health services (up to full 5%) PLUS $0.75-per-hour-worked test for each employee.

Alternate Tax Packages

Alternate Tax Packages (1)

Tax Package 1: 100% Payroll Tax

Value Proposition:

- Broad-based tax, includes some or all employers
- Simple
- Helps reduce and quantify the cost shift
  - Makes the cost shift an explicit expenditure that is eligible for federal matching funds

Alternate Tax Packages (2)

Tax Package 2: 80% Payroll Tax / 20% Health Services Transaction Tax (HSTT)

Value Proposition:

- Broad-based
- Simple
- Helps reduce and quantify the cost shift
- More stable than just a payroll tax
  - A health services transaction tax would grow at the same rate as medical costs, rather than general inflation
- Clear relationship between HSTT and the health care system
- Provides a “story”
  - Funds for coverage for employees of non-offering firms (payroll tax) and increased provider payments/public program expansion (HSTT)

Alternate Tax Packages (3)

Tax Package 3: 60% Payroll Tax / 20% Health Services Transaction Tax (HSTT) / 20% several targeted taxes

- Possible targeted taxes could include:
  - Cigarette tax, beverage/bottle tax, income tax surcharge

Value Proposition:

- Shares same value propositions as Package 2
- More diverse revenue stream – could be more or less stable
- Mixed revenue allows for meeting more targeted policy goals such as discouraging smoking or drinking bottled beverages
- Provides a “story”
  - Funds for coverage for employees of non-offering firms (payroll tax) and increased provider payments/public program expansion (HSTT)

Alternate Tax Packages (4)

Tax Package 4: 40% Payroll Tax / 40% Health Services Transaction Tax (HSTT) / 20% several targeted taxes

- Possible targeted taxes could include:
  - Cigarette tax, beverage/bottle tax, income tax surcharge

Value Proposition:

- Shares same value propositions as Packages 2 and 3
- Eases the burden on employers
- Most stable package with greatest proportion coming from HSTT
- Provides a “story”
  - Funds for coverage for employees of non-offering firms (payroll tax) and increased provider payments/public program expansion (HSTT)