

Payroll Tax Prep, House Ways and Means, 1/15/14

What is the Administration proposing?

- The Administration is proposing a general payroll tax of 0.7% on Vermont businesses.

Why propose a 0.7% payroll tax now?

- A lack of sufficient and sustainable Medicaid funding represents a major challenge for the state budget and Vermonters.
- A lack of sufficient and sustainable Medicaid funding leads to the cost shift, which occurs when the State underfunds Medicaid services and health care providers bill higher rates to private insurers and employers to make up the difference.
 - These higher rates are passed on to businesses and individuals in the form of higher health care insurance premiums.
 - The revenue from the payroll tax can be used to bring down matching federal dollars to help address the cost shift by increasing payment for Medicaid services. This should lead to less cost shifting to private insurers
 - The end result should be slower growth in commercial insurance premiums.

Yield

- In fiscal year 2016, this proposal would raise \$41 million in state funds matched with an additional \$45 million in federal dollars. We estimate that the tax would raise \$92 million annually starting in FY 17.
- Every dollar the state collects allows us to draw down \$1.10 of federal funds, more than doubling our money.
- These funds, state and federal, will allow us to close the budget gap AND Invest in a more sustainable health care system that will slow down the expected rate of growth of health care premiums for Vermonters.
- Another benefit is that the payroll tax dollars are subsidized federally, as they are deductible at the federal level as a business expense.
 - increased deductions for payroll tax paid will be offset in part by lower deductions for commercial insurance premiums. There may be some savings that leads to income or wage effects as well that may offset any increased use of deductions. Accordingly, we expect any impact on state revenues to be extremely modest.
- Additionally, anything that slows the growth of commercial insurance premiums helps slow our progress toward the Cadillac Tax thresholds.
- Distribution by business size

How would it work?

- The tax applies to all employers who are required to deduct and withhold Vermont income tax.