
Administration's Payroll Tax Proposal

In Plain English

Office of Health Care Reform

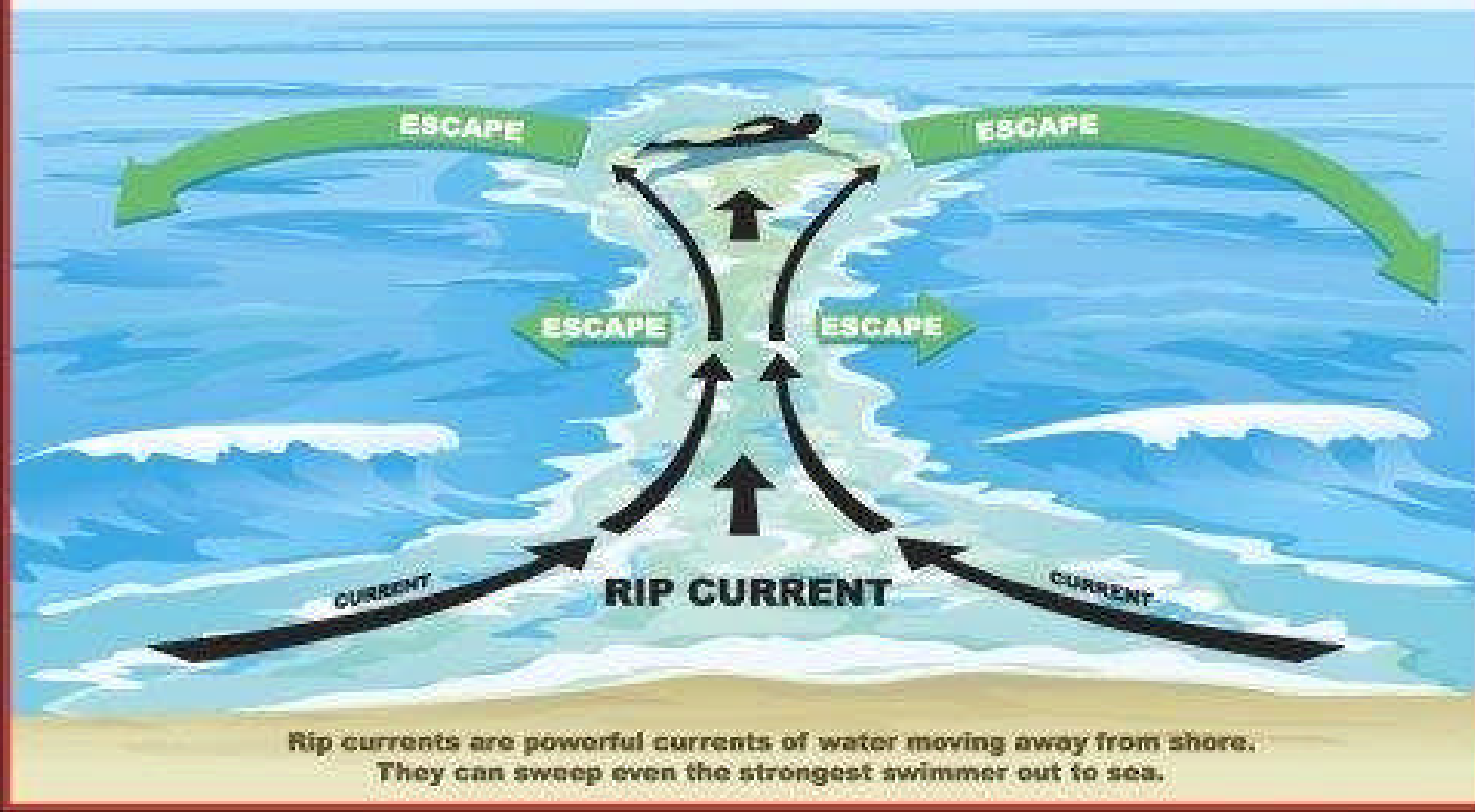
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What are We Trying to Do?

- Create a new game plan for health care reform
- Our goal is to innovate and create a sustainable health care spending trajectory within the ACA
 - The ACA commits us to thinking inside the employer sponsored insurance box

RIP CURRENTS

Break the Grip of the Rip!



How Do We Accomplish our Goal?

- Hold down insurance premiums while we align medical and behavioral incentives that will reduce costs and achieve quality outcomes
- Play by the current rules of the game (existing Medicaid law and waiver) to maximize VT health care investments in a predictable way
- Adopt revenue policy that gives everyone a stake in holding health care costs down

Strategy

- Use the payroll tax as a revenue source capable of providing a broad base, low rate, and a way for folks that offer insurance to see some ROI
- Match payroll tax with federal dollars
- Recover cost shift dollars through the GMCB and insurers

How Does Proposal Effect VT Businesses?

- Overall, more money available to reduce premiums than is raised by tax.
- All businesses that offer insurance should see a reduction in commercial premiums compared to trend. Premium savings will off-set new tax costs and will result in overall savings for some firms.
- Firms that do not provide health care will pay full cost.
- Experience is different for every firm, depending on payroll, decision to offer benefits, cost of offered benefits, take up rate of benefits, and effective tax rates

How Does Payroll Tax Effect VT Businesses?

- Generally, tax liability is very small for most Vermont businesses
 - Most Vermont businesses are quite small.
 - Smallest quarter of businesses (5,521 firms) would pay \$230 or less annually
 - Half of businesses (11,042 firms) would pay \$670 or less annually
 - 61% of businesses (13,471 firms) would pay \$1,000 or less annually
 - » Tax is offset in part or whole by insurance savings and federal deductibility
- Experience varies for every firm, depending on payroll, decision to offer benefits, cost of benefits, take up rate of benefits, and effective tax rates
- Results driven by percent of payroll currently spent on health care

How Much Would Firms Pay?

Distribution of Firms by Total Payroll (2016 dollars)			
Percentile	Total Wages Paid	Payroll Tax	Firms
10	11,588	81.1	5,521 Firms (25%) Pay \$230 or Less
20	24,867	174.1	
25	32,914	230.4	
30	41,202	288.4	11,042 Firms (50%) Pay \$665 or Less
40	64,092	448.6	
50	95,096	665.7	
60	139,496	976.5	Over 75% of Firms (16,563 firms) Pay Less than \$2,000
70	212,151	1,485.10	
75	268,212	1,877.50	
80	354,597	2,482.20	Approx. 1,100 Firms (about 5%) Pay \$1,000 a Month or More
90	822,488	5,757.40	
95	1,736,788	12,157.50	
99	7,317,505	51,222.50	Approx. 220 Firms Pay this Amount or More
99.9	43,712,883	305,990.20	Approx. 20 Firms Pay this Amount or More

Firm Size and the Tax

Distribution of Payroll Tax by Firm Size Class - 2016 dollars											
Dollars in millions	4 or fewer Workers	5 to 9 Workers	10 to 19 Workers	20 to 49 Workers	50 to 99 Workers	100 to 249 Workers	250 to 499 Workers	500 to 999 Workers	1,000 plus Workers		All firms
# of Firms	10,788	4,192	3,108	2,430	831	494	149	58	34		22,084
% of Firms	48.80%	19.00%	14.10%	11.00%	3.80%	2.20%	0.70%	0.30%	0.20%		100%
Wages	699	692	948	1,702	1,316	2,073	1,317	1,358	2,812		12,918
% of Wages	5%	5%	7%	13%	10%	16%	10%	11%	22%		100%
Tax	4.9	4.8	6.6	11.9	9.2	14.5	9.2	9.5	19.7		90.4
% of Tax	5%	5%	7%	13%	10%	16%	10%	11%	22%		100%

65% of Employees in Firms with 50 or More Workers
 Source: VT. Dept. of Taxes

69% of Wages in Firms with 50 or More Workers

ROI & Distribution of Firms Offering Insurance

Tax brings in many small firms that don't offer insurance but generally for very small dollar amounts.

Firm Size	Total Firms	% Firms	2017 Estimate of Firms Offering Insurance	2017 Firms Offering	2017 Firms Not Offering
Less than 50	20,518	92.9%	37%	7,592	12,926
50 – 99	831	3.8%	84%	698	133
100 – 499	643	2.9%	99%	637	6
500+	92	0.4%	100%	92	0
				9,018	13,066

Source: 2015 RAND Study and VT Dept. of Taxes

Payroll Tax Base

Employers taxed are the same employers who pay VT unemployment insurance

Excludes:

- Sole Proprietors and Partners, including LLCs unless LLC elects corporate status
- Some government
- Some non-profit and religious
- Domestic service
- Agricultural labor if
 - Less than \$20,000; or
 - Fewer than 10 employees
- Students
- Work programs
- Salespersons and agents working on commission
- Miscellaneous—railroad, employment on foreign vessels, fishing, etc.

Wages taxed are the same as Medicare wages

No cap on wages

Excludes:

- Health insurance
- Medical care reimbursements
- Cafeteria plans
- Employee stock dividends
- Before-tax retirement plans
- Work reimbursements

Payroll Tax Base Alternatives

- **Add Self Employed**
 - Adds \$3.5 million in FY 16
 - Adds \$7.9 Million in FY 17

- **Exempt firms with fewer than 5 employees**
 - Removes more than half of all firms.
 - Reduces revenue by \$2.2 million in FY 16
 - Reduces revenue by \$5 million in FY 17

- **Cap Wages at Social Security threshold**
 - Approximately 70% of firms have wages above cap
 - Reduces revenue by \$2.6 million in FY 16
 - Reduces revenue by \$6.2 million in FY 17

- **Adopt withholding definition instead of UI definition**
 - includes all employers paying Vermont income tax and must withhold under federal law
 - Employer assessment uses this definition
 - Adds \$3 million in FY 17