

Oregon Business Tax Deductions/Exclusions for Employee Health Insurance

This paper describes the relevant state tax incentives that are available to businesses to offer health insurance coverage to employees. It is intended to be a source document as the HRSA grant considers insurance reform strategies and other coverage expansion proposals.

The Oregon income tax system contains provisions that relate to health care, some of which derive from the federal law and others are specific to Oregon. While the Internal Revenue Service (IRS) code allows deductions and exclusions from income expenses for medical care, the tax code currently does not include any medical care incentives in the form of tax credits. The IRS code provisions encourage the purchase of health insurance by providing subsidies and other incentives to employers.¹ Employers may deduct their contributions to their employees' health care from their corporation's taxable income. They may do this on a per employee basis or as a set cost for coverage of all employees. The deduction is for the actual costs to the employer.² There is a specific health insurance deduction for self-employed individuals.

Small Employer Health Insurance

Small employers have the same tax incentives as do large firms, but there have been insurance reforms to help these small businesses provide health insurance to their employees. Recent legislation (1995, SB 152; 1997, SB 98) allows the Small Employer Health Insurance (SEHI) program to offer accessible health insurance for businesses with 2 to 50 employees. Eligible employees must work on a regular schedule for 17.5 or more hours per week

The following list of relevant business tax subsidies was derived from the *Tax Expenditure Report for Oregon's Biennial Years, 2001-03*. In this report, tax expenditures represent revenue loss to the state and local governments, so the term "revenue impact" means the amount by which the income tax expenditure reduces state General Fund revenue.

- **Employer Provided Health Insurance (deduction)** – This is not strictly a tax expenditure as there are no provisions in federal or state law that refer to this deduction. It is one of the "costs of doing business" that corporations are allowed to deduct from their gross receipts in determining their taxable income.³
 - ~ Revenue Impact (99-01): \$80 million to \$100 million
- **Self-Employment Health Insurance** – Individuals who are self-employed may take a percentage of amounts paid for health insurance from personal taxable income. This deduction will increase to 70% in 2002 and in 2003 and thereafter, will become a full deduction (100%). There is also a tax deduction provision available to working partners in a partnership and employees of an S-corporation who own more than 2% of a corporation's stock.⁴

¹ Weiss, R and Garay, M. with Deloitte & Touche LLP Washington National Tax Group. (January 2000). *Recent Tax Proposals to Increase Health Insurance Coverage*. Prepared for The Henry J. Kaiser Family Foundation.

² personal communication, D. Zerbe, April 2001

³ Harchenko, E. (March 24, 2000). Memo to Mark Gibson, *Review of Tax Equity for Health Care Options*. Oregon Department of Revenue.

⁴ An S-corporation is intended to protect the personal liability for typical "mom and pop" businesses. They must form a corporation that assumes the risk. In contrast, the self-employed carry a personal risk with their business. (Personal communication with Department of Revenue staff, David Zerbe, 3/26/01).

~ To provide a degree of equity between self-employed and employees covered by employer-sponsored health care insurance.

~ Revenue Impact (01-03): \$14,300,000

- **Blue Cross/Blue Shield and Other Nonprofits** – This is a special deduction from corporate taxable income of up to 25% of the excess of year's health-related claims over their accumulated surplus at the beginning of the year. To encourage provision of health insurance by companies that provide community service and community-rated insurance coverage. These companies contain in their charters a commitment to offer individual policies not available elsewhere. In addition, some continue to offer policies with premiums that are community rated.

~ Revenue Impact: (01-03): Not available

- **Rural Medical Practice** – This is an annual credit of \$5000 against personal income taxes for physicians, physician assistants, nurse practitioners, certified registered nurse anesthetists, podiatrists, dentists and optometrists who work in a rural area (defined as any area ten or more miles from a population center of 30,000 or more). The provider must have a rural practice that amounts to 60 percent or more of their practice. In total, there are approximately 486,000 Oregonians who are served by participants in this program, who might otherwise have no health care access.

~ Revenue Impact (01-03): \$9,700,000

- **Long Term Care Insurance (Oregon credit)** – This is available for employers who provide long-term care insurance on behalf of their Oregon employees. For businesses, the maximum income tax credit is 15 percent of the total amount of long-term care insurance premiums provided by the employer not to exceed \$500 per employee. This is a new credit allowed only for new policies purchased on or after January 1, 2000.

~ Revenue Impact (99-01): \$100,000

- **Charitable Contributions: Health (deduction)** – Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income for health services, facilities, and equipment. It is expected that a good portion of the donated funds and equipment will provide direct and indirect benefits to all state residents. These benefits may take the form of lower costs for health services, or access to services or equipment that otherwise may not have been available.

~ Revenue Impact (99-01): \$4.1 million

- **Bone Marrow Transplant Expense (credit)** – This is a tax credit allowed against corporation taxes to an employer for expenses related to the development and operation of an employee bone marrow donation program. Credit equals 25 percent of employer's expense incurred during the year for employees who donate bone marrow.

~ Revenue Impact: Less than \$50,000

Oregon ranks sixth best nationwide in proportion of the state's population that has employer-sponsored insurance coverage, and is the sixth lowest in private-sector premiums, about \$4,500 per year for

family coverage.⁵ The national average is slightly less than \$5,000. Oregon's employers contribute significantly to employee purchase of insurance coverage, about 65 percent of the premium for family coverage, and nearly 90 percent of the premium for individual coverage.

There is rising concern in Oregon, that an economic down-turn in the state may place additional pressure on the state's small business owners to withdraw from providing insurance coverage for their employees. A recent national survey⁶ indicated that companies that currently offer health benefits are slightly more likely than those that do not to strongly or somewhat favor tax credits. With the Congressional activity around tax credits for business to offer health insurance, and with Oregon's motivation to provide universal health care access, there may be some protection for the state's working poor and uninsured in the near future.

This is one of a series of papers discussing issues related to universal health coverage for low-income uninsured Oregonians. This work is supported by a grant from the Health Resources and Services Administration. As more information is gathered, the papers will change. Views and ideas expressed within these papers are not intended to reflect those of any particular group, unless so noted, but are intended to inform and stimulate discussion and debate on critical health care coverage strategies. For the most recent revision, please visit the grant team's Web site: http://www.ohppr.org/hrsa/index_hrsa.htm, or call 503/418-1067 to request the paper in an alternate format.

⁵ Branscome, J.M., Cooper, P. F., Sommers, J., & Vistnes, J.P. (Jan/Feb. 2000). *Private Employer-sponsored Health Insurance: New Estimates by State*. Health Affairs.

⁶ SEHBS. *2000 Small Employer Health Benefits Survey: Summary of Findings*.