April 15, 2019

Joint Committee on Student Success
Oregon State Legislature

RE: HB 3427 Funding for Oregon's K-12 Education System

Dear Senators and Representatives,

Standard Insurance Company is Oregon's largest headquartered insurance and financial services company, founded in 1906 in Portland. Today, our more than 3,000 employees provide insurance and retirement benefits to group and individual customers nationwide. We are supportive of an increased investment in Oregon's public education system, but the manner in which added taxes are levied on traded sector insurers is very consequential.

Of concern to Oregon-headquartered insurers is the retaliatory taxing authority of other states, and the fact that the current "modified GRT" proposal would trigger a significant retaliatory tax liability in other states.

Oregon levies an excise tax on insurers, and our tax rate of 6.6% for the first $1,000,000 of revenue, 7.6% thereafter, is median nationally. The excise tax system has served Oregon well and provides legislators with ample flexibility to determine effective tax rate for insurers.

Because of the unique nature of insurance accounting, statutory reporting and taxation, insurers are typically not included in broad state income or activities-based tax structures. Insurers are exempt from CAT/GRT taxes in Ohio, Texas and Washington. In Nevada, insurance premiums are exempt from the Commerce Tax.

Insurers are subject to retaliatory taxes in 49 states and the District of Columbia. Retaliatory taxes are unique to the insurance industry and operate to discourage states from imposing higher taxes on another state's domestic (headquartered) insurers. In essence an insurer must pay the greater of their home state rate or the non-domestic state's rate in any given jurisdiction. Our tax liability in each state is the greater of:

- The actual tax, fee and assessment burden imposed in the state in which the insurance company writes premium (i.e. the state where the company is filing a return), or

- The tax, fee and assessment burden that would be imposed by the insurance company's state of domicile using the amount of the actual business being written in the filing state.

If Oregon's effective tax rate on its headquartered insurers gets appreciably higher than other states, its domestic carriers pay the higher Oregon rate in every jurisdiction (aka the "retaliatory" tax imposed by other jurisdictions).

Preserving Oregon's excise tax structure for insurers provides legislators flexibility with the rate, but also a lower likelihood of triggering significant retaliatory taxes on its headquartered carriers.

Under the "modified GRT" tax currently on the table, Standard would pay three times more in retaliatory taxes to other states than to Oregon. Those are dollars that won't benefit Oregon's schools nor go toward Oregon payroll. We'd prefer those dollars be put to use in Oregon.

After discussion with companies' tax experts as well as our outside consultants, we believe the better route is to maintain Oregon's existing excise tax structure for insurers. We are open to an adjustment to the excise tax rate as part of the broader revenue and expense control effort underway in the Legislature.

Sincerely,

Justin Delaney
VP External Affairs and Associate Counsel