Oregon Mutual

Steven L. Patterson
President & CEO

Joint Committee on Student Success
Oregon State Legislature

RE: **HB 3427** Funding for Oregon's K-12 Education System Dear Senators and Representatives,

Oregon Mutual Insurance Company is Oregon's oldest headquartered insurance company, founded in 1894 in McMinnville. Today, we are several hundred employees providing insurance for individuals and businesses in four states, serviced from our Oregon headquarters. Personally I serve on a school board budget committee and a task force for facilities in our district. I am hopeful you can accept that we can be for Oregon's public education system and against the taxing mechanism considered as the vehicle for additional investment in education. Please know that in an already highly regulated and assessed industry, the manner in which added taxes are levied is consequential.

As an Oregon-headquartered insurer, we are likely to be subjected to the retaliatory taxing authority of other states under the current "modified GRT" proposal. This would disadvantage our business in those states and hurt our results here in Oregon. Oregon already 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 laws 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 current flexibility with the rate, but also a lower likelihood of triggering significant retaliatory taxes on its headquartered carriers.

Under the proposed "modified GRT" tax, Oregon Mutual would pay more in retaliatory taxes to other states and make us less competitive in those states, hurting domestic insurers. Those are dollars that won't benefit Oregon's schools nor go toward Oregon payroll. While we do not support a tax based on mere sales activity as it will negatively impact Oregon consumer rates and imbed another revenue stream into insurance products that has nothing to do with insurance coverage.

Oregon's existing excise tax structure for insurers is an appropriate mechanism for this revenue. We join Standard Insurance Company in our opposition to **HB 3427**. The Excise tax is a tax the Department of Revenue web site lists as "for the privilege of doing business in Oregon. It is measured by net income." The privilege is doing business in any state is to expend effort and income to achieve profit that can be used for other elements of commerce. While we are open to discussing some adjustment to the excise tax rate as part of a broader revenue <u>and</u> expense control effort, public and tax policy should focus on creating a business and tax environments that enhances business's opportunity to grow their businesses and net profit such that revenue is enhanced. Sadly, for domestic insurers in particular, **HB 3427** does not do either.

Sincerely,

Steven L. Patterson
President & CEO