

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0323-01
Bill No.: SB 95
Subject: Insurance - Medical; Taxation and Revenue - General; Business and Commerce
Type: Original
Date: January 21, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0 to (\$10,143,843)	\$0 to (\$84,599)	\$0
Total Estimated Net Effect on General Revenue Fund	\$0 to (\$10,143,843)	\$0 to (\$84,599)	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Attorney General's Office** assume this proposal would not fiscally impact their agency.

Officials of the **Office of the State Treasurer (STO)** state this proposal creates the Small Business Health Insurance Assistance Program (Section 135.920.2). Tax credits can be granted up to \$10 million in aggregate.

STO assumes Section 135.920.3 allows the General Assembly to reimburse General Revenue for tax credits claimed from the tobacco monies received and deposited into the Tobacco Settlement Trust Fund. No impact is expected to STO. STO defers to the Office of Administration, Budget and Planning for an estimate of the revenue impact of this proposal.

Officials of the **Department of Insurance (INS)** state the proposed legislation creates the Small Business and Health Insurance Assistance Program to encourage qualifying small businesses (2-25 employees) to establish or maintain a qualified health insurance program available to their eligible employees. Small employers taking advantage of this program will receive a tax credit for the costs associated with paying their employees' health insurance premiums. No impact is expected to INS.

ASSUMPTION (continued)

Officials of the **Department of Revenue (DOR)** state this legislation establishes the “Small Business Health Insurance Program” by authorizing a tax credit for small employers incurring costs for health insurance paid on behalf of employees. Small employers not paying health insurance premiums for employees as of January 1, 2003, which begin to pay such premiums shall receive a tax credit equal to 50% of the premiums paid the first two years, 35% of the premiums paid the third and fourth years, and 25% of the premiums paid each year after. A small employer currently paying health insurance premiums for employees will receive a tax credit equal to 25% of the premiums paid, if the employer can document a minimum of 20% increase in premium costs per eligible employee.

The tax credit is administered by DOR and the General Revenue Fund may be reimbursed by the tobacco settlement to offset the costs of the tax credit to the state. The aggregate amount of tax credits awarded under the bill's provisions may not exceed \$10 million. The proposal has an expiration date of December 31, 2007.

DOR states, according to the Office of Administration, Budget and Planning, there are 140,000 small employers eligible for this tax credit. Using these figures, the Personal Tax Bureau will need one Tax Processing Technician to certify the amount of the credit and approve the credit claims, and one Tax Processing Technician to process the credits received. The Business Tax Bureau will also need one Tax Processing Technician to process the credits received.

DOR assumes this legislation will require modifications to the individual income tax and credit systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$46,170. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs. Modifications to the income tax returns and schedules will be completed with existing resources.

Officials of the **Office of Administration, Budget and Planning (BAP)** assume this proposal would allow a tax credit for small employers who provide health insurance for eligible employees.

ASSUMPTION (continued)

BAP assumes the number of business establishments that may qualify can be estimated from the following data from the U.S. Census Bureau for Missouri for 2000:

No. of Employees	No. of Establishments
1-4	76,663
5-9	28,332
10-19	18,828
20-49	12,766

BAP has no basis for estimating the number of establishments that would participate in the program. This proposal would have no impact on BAP.

In a similar prior proposal, BAP assumed the businesses in Missouri that meet the definition of small business was about 140,000. BAP estimated that these businesses had approximately 1,066,173 employees. BAP assumed that if each small business employer qualified for \$50 per employee, the revenue loss would be \$51.4 million annually. BAP stated that if only fifty percent of the businesses participate, the tax credits would still be \$25.7 million annually. Therefore, BAP assumed the maximum tax credit of \$10 million in the aggregate would be reached the first year the credit was available.

Oversight assumes BAP estimates only reflect a \$50 per eligible employee for the calendar year, while actual premium costs would be higher than \$50 per month, per eligible employee.

According to information from the *2001 Statistical Abstract of the United States*, 35.9% of employers with less than 10 employees offer health insurance to their employees, while 66.7% of employers with 10 to 24 employees offer health insurance to their employees.

Oversight assumes that even if ten percent of the largest small businesses (1,277) in Missouri are currently paying health insurance premiums for employees (44,043) and therefore would be eligible to receive a credit for 25% of the health insurance premiums paid per month per eligible employee, the cost would be \$6,606,450 (44,043 employees x \$50 x 12 months x 25%).

Oversight assumes of the small businesses not paying for employees health insurance (136,589), fifty percent (68,295 small businesses with 551,708 employees) would elect to participate in this new tax credit program and would be eligible to receive a 50% credit for premiums paid per month per eligible employee or \$165,512,400 (551,708 employees x \$50 x 12 months x 50%).

ASSUMPTION (continued)

Oversight did not consider the number of farmers eligible for this credit since the credit limits have already been reached with small businesses eligible for the credit.

Oversight has ranged the fiscal impact for FY 2004 from \$0 to (\$10,000,000) due to the credit limit of \$10 million in the aggregate, and the provisions in the proposal that allows the tax credit only upon appropriation of moneys received from the master settlement tobacco agreement entered into on November 23, 1998.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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GENERAL REVENUE FUND

Loss to General Revenue Fund

Tax credit for employer provided health insurance	\$0 to (\$10,000,000)	\$0	\$0
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Cost - Department of Revenue

Personnel (3 FTE)	(\$48,062)	(\$59,117)	\$0
Fringe Benefits	(\$19,451)	(\$23,925)	\$0
Equipment & Expenses	(\$21,153)	(\$1,557)	\$0
Programming costs	<u>(\$55,177)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	<u>(\$143,843)</u>	<u>(\$84,599)</u>	<u>\$0</u>

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	<u>\$0 to</u> <u>(\$10,143,843)</u>	<u>\$0 to</u> <u>(\$84,599)</u>	<u>\$0</u>
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*Subject to appropriation.

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses providing health insurance for certain employees will see a reduction in taxes due to this tax credit.

DESCRIPTION

This proposal establishes the Small Business Health Insurance Assistance Program to allow small employers a tax credit for costs associated with health insurance premiums paid on behalf of employees. Small employers are those with two to twenty-five employees who work at least thirty hours per week.

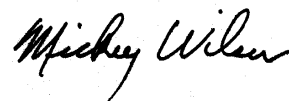
The proposal also specifies that a farmer's spouse may be considered a second eligible employee if the spouse is hired by the farmer. All eligible small employers will receive a tax credit of 25% of the amount paid annually in premiums for eligible employees. A small employer will receive higher credits for up to four years if the employer does not pay its employees' health insurance premiums on January 1, 2003, and begins to pay for its employees' premiums after that date. The tax credit is conditioned upon receiving appropriations from the General Revenue Fund or the tobacco settlement to offset the costs of the tax credit to the state. The aggregate amount of tax credits awarded under this proposal's provisions may not exceed \$10 million.

The proposal has an expiration date of December 31, 2007.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance
Office of the State Treasurer
Department of Revenue
Office of Administration
 Budget and Planning
2001 Statistical Abstract of the United States



L.R. No. 0323-01
Bill No. SB 95
Page 7 of 7
January 21, 2003

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Director
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