

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2725-01
Bill No.: SB 728
Subject: Taxation and Revenue - Income; Health Care; Insurance - Medical
Type: Original
Date: January 26, 2004

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|----------------|-----------------------------|-----------------------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| General Revenue | \$0 | (Up to \$15,104,579) | (Up to \$15,029,984) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | (Up to \$15,104,579) | (Up to \$15,029,984) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| | | | |
| Total Estimated Net Effect on Other State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume the proposal would allow small businesses, defined as those with 75 or fewer employees, to claim a tax credit for 10% of the employer contribution towards their health insurance with a cap of \$2,000 per eligible small employer. The overall cost of this program is capped at \$15 million per fiscal year. This proposal will decrease Total State Revenue and have a negative impact on General Revenue.

This proposal has no impact on the Office of Administration, Budget and Planning.

Officials of the **Department of Revenue (DOR)** state this legislation will allow small employers (employers with less than 75 eligible employees) a tax credit, not to exceed \$2,000, in an amount equal to 10% of the amount contributed to each health reimbursement arrangement per eligible employee for the first two tax years that the employee contributes. Credit has carry over features but is not refunded. Tax credit cap is \$15 million per fiscal year.

The legislation indicates that the Division of Insurance (INS) and DOR will jointly administer the credit. DOR assumes that INS will certify the credit amount to the taxpayer and to DOR. Therefore, DOR assumes it will just cashier the credits and will need one Tax Processing Technician for every 13,000 claims filed in order to key and process the credits.

ASSUMPTION (continued)

Enhancements will be needed in Personal Tax for MINITS and Speedup to allow for the new credit. DOR estimates that 1,384 hours of programming will be needed at a cost of \$46,170. Corporate tax will need to update forms and programming for the COINS and Café systems to allow the key entry and processing of the credits. DOR estimates that 692 hours of programming, at a cost of \$23,085, will be needed.

Assuming INS certifies the credit with supporting documentation and handles all the questions pertaining to applying for and receiving the credit, no additional FTE will be needed. However, if this assumption is incorrect, DOR may need additional FTE, including one Tax Collection Technician to handle questions regarding the credit.

Oversight has, for fiscal note purposes only, changed the starting salary for the Tax Processing Technician I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials of the **Department of Social Services (DOS)** state this proposed legislation would allow a 10% income tax credit of up to \$2,000 per eligible employee for small employers who contribute to health insurance for their employees. While the proposed tax credit will reduce the amount of revenue to the state, there is no direct fiscal impact to the DOS.

Officials of the **Department of Insurance (INS)** state this legislation creates a 10% tax credit for contributions to health reimbursement arrangements (medical savings accounts) for small employers (1-75 employees) not to exceed \$2,000 per eligible small employer. Requirements include that small employer must also provide a qualified higher deductible health insurance plan. Tax credit shall be co-administered by Department of Insurance and Department of Revenue.

Tax credits can be taken against taxes due under Chapter 143 and not Chapter 148, RSMo which is the premium tax section. Premium taxes may still be impacted if premiums paid on higher deductible plans is less than on policies employers otherwise would carry. INS has made no assumptions in this area.

INS assumes that it is unclear how legislation would impact the current statute of Section 143.999 which allows 100% of the employer's contribution to medical savings accounts to be exempt from state tax. This may create an exemption and a credit both being taken.

ASSUMPTION (continued)

Legislation provides INS with rule-making authority to administer the tax credit, but legislation does not appear to require any regulation changes for the INS operations and would likely not result in significant fiscal impact. Therefore, no fiscal impact is expected to INS.

This legislation would result in a loss to Total State Revenue.

| | | | |
|---|---------------------|---------|---------|
| <u>FISCAL IMPACT - State Government</u> | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|---------------------|---------|---------|

GENERAL REVENUE FUND

Loss - General Revenue Fund

| | | | |
|------------------------------------|-----|-------------------------|-------------------------|
| Tax credit for health ins premiums | \$0 | (Up to \$15,000,000) | (Up to \$15,000,000) |
|------------------------------------|-----|-------------------------|-------------------------|

Cost - Dept. of Revenue

| | | | |
|--------------------------|------------|--------------------|-------------------|
| Personal Service (1 FTE) | \$0 | (\$20,336) | (\$20,844) |
| Fringe Benefits | \$0 | (\$8,419) | (\$8,629) |
| Expense and Equipment | \$0 | (\$6,569) | (\$511) |
| Programming | <u>\$0</u> | <u>(\$69,255)</u> | <u>\$0</u> |
| Total Cost - DOR | <u>\$0</u> | <u>(\$104,579)</u> | <u>(\$29,984)</u> |

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

| | | |
|-------------------|--|--|
| <u>\$0</u> | <u>(Up to \$15,104,579)</u> | <u>(Up to \$15,029,984)</u> |
|-------------------|--|--|

| | | | |
|---|---------------------|---------|---------|
| <u>FISCAL IMPACT - Local Government</u> | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|---------------------|---------|---------|

| | | |
|-------------------|-------------------|-------------------|
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
|-------------------|-------------------|-------------------|

FISCAL IMPACT - Small Business

Small businesses would be expected to be impacted as a result of this proposal since this proposal authorizes tax credits targeted at small businesses.

DESCRIPTION

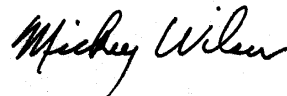
This proposal creates a tax credit of up to \$2,000 for 10% of the contribution made by a small business to a health reimbursement arrangement. The health reimbursement arrangement must meet certain requirements which basically constitute a hybrid self-insurance plan with an umbrella. Certain farmers will qualify as eligible employees under the definitions provided by the act.

The credit can be carried forward for five years, and is not refundable or transferrable. The credits will be administered by the Department of Insurance and the Department of Revenue, jointly. In no fiscal year shall the credits issued exceed \$15 million.

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 Revenue
Office of Administration
Division of Budget and Planning
Department of Social Services
Department of Insurance



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Director
January 26, 2004