COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2725-02
Bill No.: SCS for SB 728
Subject: Taxation and Revenue - Income; Health Care; Insurance - Medical
Type: Original
Date: March 30, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	$0	(Up to $5,104,579)	(Up to $5,029,984)
Total Estimated Net Effect on General Revenue Fund	**$0**	**(Up to $5,104,579)**	**(Up to $5,029,984)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Insurance Dedicated	$0	(Greater than $100,000)	(Greater than $100,000)
Total Estimated Net Effect on Other State Funds	**$0**	**(Greater than $100,000)**	**(Greater than $100,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All 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)** stated 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 $5 million per fiscal year. This proposal would decrease Total State Revenue and have a negative impact on General Revenue.

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

Officials of the **Department of Revenue (DOR)** state this legislation would 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 forward features but is not refunded. Tax credit cap is $5 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)** stated that this proposal would have no direct fiscal impact to the DOS.

Officials of the **Department of Insurance (INS)** state this legislation would create 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 a small employer must also provide a qualified higher deductible health insurance plan. The tax credit would be co-administered by Department of Insurance and Department of Revenue.

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

INS officials state 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.

The proposal provides INS with rule-making authority to administer the tax credit. INS currently redeems a number of tax credits against premium tax liabilities under Chapter 148, RSMo, but

ASSUMPTION (continued)

does not administer any tax credit programs which require INS staff to authorize or issue tax credits. This proposal would require INS to create a new program area within the Department. INS officials estimate administering the program would require at least three additional staff, related equipment and expense and the creation of a tax credit database system for small employers applying for tax credits. Total costs would exceed $100,000 per year.

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

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Loss - General Revenue Fund			
Tax credit for health insurance premiums	$0	(Up to $5,000,000)	(Up to $5,000,000)
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	$0	($69,255)	$0
Total Cost - DOR	$0	($104,579)	($29,984)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**(Up to $5,104,579)**	**(Up to $5,029,984)**
INSURANCE DEDICATED FUND			
Cost - Department of Insurance			
Administration of Tax Credits	$0	(Greater than $100,000)	(Greater than $100,000)
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	**$0**	**(Greater than $100,000)**	**(Greater than $100,000)**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

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 would qualify as eligible employees under the definitions in the act.

The credit could be carried forward for five years, but would not be refundable or transferrable. The credits would be administered by the Department of Insurance and the Department of Revenue, jointly. In no fiscal year would the credits issued exceed $5 million.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This proposal could affect Total State Revenues.

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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GVB:LR:OD (12/02)

Director
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