COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2989-01
Bill No.: SB 720
Subject: Health Care; Insurance - Medical; Taxation and Revenue - Income
Type: Original
Date: January 12, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($239,180 to Unknown)	($170,238 to Unknown)	($173,908 to Unknown)
Total Estimated Net Effect on General Revenue Fund	**($239,180 to UNKNOWN)**	**($170,238 to UNKNOWN)**	**($173,908 to UNKNOWN)**

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 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

Department of Insurance (INS) officials assume this legislation allows an individual or corporate taxpayer a tax deduction for contributions made to a medical savings account to the extent not deducted on the federal tax return. Allowing this deduction may cause more individuals or companies to purchase high deductible policies and utilize medical savings accounts for the deductible costs. Higher deductible plans would in general have a lower premium. Reduction in premiums paid would translate into less premium tax collected for the state. However, no assumptions were made on the impact to premium tax revenues as INS is uncertain how this legislation will impact the purchasing of higher deductible policies. No fiscal impact is expected to INS.

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** state this proposal would allow a state tax deduction for those who contribute to a "medical savings account" and who do not already take a similar deduction on their federal return. The cost of this proposal hinges on the number of individuals/corporations who would be induced to participate in such a program as well as the amount of money they would place in such an account. BAP has no empirical basis for estimating these factors. This proposal could have an unknown negative impact on General Revenue and Total State Revenue. BAP assumes this bill would have no impact on the Office of Administration or BAP.

ASSUMPTION (continued)

Officials of the **Department of Revenue (DOR)** assume this legislation authorizes a tax deduction for those contributing to a medical savings account if they are not eligible to take a federal deduction. The maximum deduction allowed is $2,000 per individual, $5,000 per household for each taxable year. The legislation specifies DOR to administer the deduction similar to the federal code for medical savings accounts.

DOR assumes if the deduction is located on the W2, Personal Tax will need three tax season temporary employees to key and process the additional line on the income tax return. One Tax Processing Technician will be needed for every 15,000 deductions claimed in order to verify if the medical savings account is a qualifying account and one Tax Processing Technician will be needed for every 1,500 additional pieces of correspondence.

DOR assumes elimination of the federal guidelines complicates the eligibility, so all filers claiming the deduction will need to be reviewed. When the statute follows the federal guidelines, DOR can see what the taxpayer takes on the federal return and can give a deduction for anything remaining. Since the taxpayer will not have a federal deduction under this legislation, DOR will not know without looking at the details (documentation sent by the taxpayers) whether it is a qualifying plan or not.

DOR assumes Corporate Tax will need one Tax Processing Technician to handle the additional corporate returns, correspondence, phone calls and error corrections related to this deduction.

DOR assumes Information Technology will have an estimated 3,460 hours of programming for MINITS and COINS mainframe and subsystems (5 programmers 2 months for each system) for an estimated cost of $115,426. State Data Center implementation costs will be $9,007 with on-going cost of $451.

Customer Assistance anticipates additional telephone calls, walk-ins and delinquencies. DOR assumes one Tax Collection Tech I is needed for every 24,000 additional calls on the 751-3505 telephone number due to this legislation. One Tax Collection Tech I will be needed for every 15,000 calls on the 751-7200 (delinquency) line due to billings on denied deduction/documentation issue.

DOR defers any revenue impact to the Office of Administration, Budget and Planning.

In response to a similar, prior proposal, DOR estimated the modifications, including programming changes, would require 1,730 hours of contract labor at a cost of $57,712. Modifications to the income tax returns and schedules will be completed with existing resources.

KS:LR:OD (12/02)

ASSUMPTION (continued)

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, with on-going costs of $451. Therefore, **Oversight** will reflect the programming costs at $57,712.

Oversight has, for fiscal note purposes only, changed the starting salary for the Tax Processing Technicians and the Tax Collection Technicians 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.

This proposal would decrease Total State Revenues through tax deductions for contributions to medical savings accounts.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Loss - General Revenue			
Medical Savings Account Contributions	(Unknown)	(Unknown)	(Unknown)
Cost - Dept. of Revenue			
Personal Service (5 FTE, 3 Temp)	($106,020)	($125,035)	($127,575)
Fringe Benefits	($34,225)	($42,095)	($43,145)
Equipment & Expense	($32,216)	($2,657)	($2,737)
Programming	($66,719)	($451)	($451)
Total Cost - DOR	($239,180)	($170,238)	($173,908)
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($239,180 to Unknown)**	**($170,238 to Unknown)**	**($173,908 to Unknown)**

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

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal allows a tax deduction to those who contribute to medical savings accounts. It provides that any person who is not eligible for a federal tax deduction for contributions made to medical savings accounts will be allowed a state tax deduction. Eligible persons, however, may not take both a federal and a state tax deduction for such contributions. The maximum deduction allowed is $2,000 per individual and $5,000 per household and there is no limit on the number of participating policies in Missouri. The Department of Revenue will administer the program.

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 Administration
Division of Budget and Planning
Department of Revenue

Mickey Wilson

Mickey Wilson, CPA
Director
January 12, 2004