

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3084-01  
Bill No.: SB 756  
Subject: Insurance - Medical; Taxation and Revenue - Income; Business and Commerce  
Type: Original  
Date: January 6, 2004

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
General Revenue	(\$167,989 to \$10,167,989)	(\$88,106)	\$0
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$167,989 to \$10,167,989)</b>	<b>(\$88,106)</b>	<b>\$0</b>

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

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

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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#### **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 Tax Credit Program funded with tobacco settlement proceeds. Tax credits can be granted up to \$10 million in aggregate.

STO assumes this proposal 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.

In response to a similar prior proposal, officials of the **Department of Insurance (INS)** stated 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 was 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, 2004, 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, 2008.

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 Customer Assistance will need one Tax Collection Technician for every 24,000 calls a year to the income tax hotline and one Tax Collection Technician for every 15,000 calls a year to the delinquency number due to adjusted refunds for lack of documentation.

DOR assumes this legislation will require modifications to the individual income tax, corporate tax and credit systems. The Division of Taxation estimates these modifications, including programming changes, will require 2,076 hours at a cost of \$69,255. 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.

DOR defers any revenue impact to BAP. However, DOR notes that the legislation will decrease the General Revenue Fund of an unknown amount beginning in FY04, not to exceed the \$10 million cap.

In response to a similar proposal last session, DOR assumed the programming changes would require 1,384 hours of contract labor at a cost of \$46,170. **Oversight** will include the

ASSUMPTION (continued)

programming change costs of \$46,170 for MINITS and \$23,085 for COINS. Also in the prior response, DOR assumed three FTE could handle the increase in workload created by the proposal. Therefore, **Oversight** will include the costs for three FTE.

**Oversight** has, for fiscal note purposes only, changed the starting salaries for the three Tax Processing 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.

Officials of the **Office of Administration, Budget and Planning (BAP)** assume this proposal provides a tax credit for qualified small businesses in an amount equal to 50% of the cost of employees' health insurance premiums for businesses that begin providing health insurance to their employees after January 1, 2004. The maximum amount of tax credits granted between August 28, 2004 and December 31, 2008, is \$10 million. The General Assembly may reimburse the General Revenue Fund from the Tobacco Master Settlement Agreement for amounts lost due to the tax credit.

BAP assumes the number of business establishments that may qualify can be estimated from the following data from the U.S. Census Bureau, County Business Patterns, for Missouri for 2001:

No. of Employees	No. of Establishments
1-4	76,306
5-9	28,148
10-19	18,581
20-49	12,831

BAP has no basis for estimating the number of establishments that would participate in the program. Using the midpoints of the employment ranges in the table above, BAP estimates there are 1.3 million small business employees in Missouri. If each small business employer qualified at \$50 per employee, the total tax credit would be approximately \$32.5 million, well over the \$10 million aggregate cap. Therefore, BAP estimates the maximum \$10 million could be awarded in the first year the credit is available. BAP estimates the impact to the General Revenue Fund to be \$0 to (\$10 million) in FY 2005.

This proposal would have no impact on BAP.

ASSUMPTION (continued)

**Oversight** assumes BAP estimates 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 2005 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 2005 (10 Mo.)	FY 2006	FY 2007
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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)	(\$49,600)	(\$61,008)	\$0
Fringe Benefits	(\$20,534)	(\$25,257)	\$0
Equipment & Expenses	(\$19,593)	(\$1,841)	\$0
Programming costs	<u>(\$78,262)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	<u>(\$167,989)</u>	<u>(\$88,106)</u>	<u>\$0</u>

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>(\$167,989 to \$10,167,989)</u></b>	<b><u>(\$88,106)</u></b>	<b><u>\$0</u></b>
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\*Subject to appropriation.

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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### 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, 2004, 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, 2008.

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

Office of the State Treasurer  
Department of Revenue  
Office of Administration  
Budget and Planning

NOT RESPONDING: Department of Insurance

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
January 6, 2004