

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4009-01
BILL NO.: HB 1829
SUBJECT: Insurance-Medical; Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: April 3, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0	(\$159,027,391) to (\$254,327,391)	(\$165,800,000) to (\$265,900,000)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$159,027,391) to (\$254,327,391)	(\$165,800,000) to (\$265,900,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Insurance (INS)** state this proposal would not fiscally impact their agency.

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction for health insurance premiums and out-of-pocket medical costs, to the extent that the premiums are included in the taxpayer's federal adjusted gross income and not already excluded from Missouri adjusted gross income.

The number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation will need one temporary tax season employee (\$8.00 an hour) for every 130,000 returns filed with this subtraction. Because of the inconsistency in the types of documentation a taxpayer may submit for verification, one Tax Processing Tech I will be needed for every 2,000 income tax errors generated by this legislation. The Division also anticipates an increase in the number of notices sent to the taxpayer and an increase in the number of telephone calls and correspondence received from taxpayers. Therefore, one Tax Processing Tech I will be needed for every 3,000 pieces of correspondence received and one Telephone Collection Tech I for every 12,000 notices generated by the Department.

This legislation will require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours, a cost of \$41,617. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$4,755 is requested for implementation costs and \$25,609 is requested for on-going costs.

Oversight has allowed the Department of Revenue \$27,391 for reprogramming expenses, State Data Center charges and implementation costs. Oversight assumes the Department of Revenue could handle the provisions of this proposal with existing resources or request additional staff through the budget process.

Officials of the **Office of Administration (COA)** state this proposal allows a deduction for health insurance premiums and out-of-pocket medical expenses paid.

HEALTH INSURANCE DEDUCTION:

COA officials state that \$4,205,036,928 in health insurance premiums were written in Missouri

ASSUMPTION (continued)

in FY 1998 per the Department of Insurance. COA states that according to Table 168 in the 1998 Statistical Abstract, 27.15% of health insurance premiums are paid by individuals. COA assumes that taxpayers would not adjust their withholdings in FY 2001 to take advantage of this credit. COA also assumes that 15% of all premiums paid by individuals are run through cafeteria plans and are not included in federal adjusted gross income. Therefore, the amount of premiums paid by individuals is lowered by 15%. COA assumes a 3% annual growth. COA estimates that revenue would be reduced by \$0 in FY 2001, \$63.6 million in FY 2002 and \$65.5 million in FY 2003.

OUT-OF-POCKET MEDICAL EXPENSE DEDUCTION:

COA states the out-of-pocket medical cost per capita from the Health Care Financing Administration's Health Care Expenditures Projections to be \$763 in FY 2001, \$802 in FY 2002, and \$842 in FY 2003. COA states that based on Missouri individual income tax data the number of people per return for each type of return was calculated to arrive at a per capita figure. COA states this number was then multiplied by the per capita out-of-pocket medical cost to arrive at a state wide out-of-pocket expenditure. COA also assumes that 15% of all premiums paid by individuals are run through cafeteria plans and are not included in federal adjusted gross income. Therefore, the amount of premiums paid by individuals is lowered by 15%. COA assumes a six percent marginal tax rate. COA assumes the amount deducted would be ranged from fifty percent participation to one hundred percent participation. COA estimates that revenue would be reduced by \$0 in FY 2001, \$95.4 million to \$190.7 million in FY 2002 and \$100.3 million to \$200.4 million. COA further states that after discussions with the Department of Revenue, it is assumed that this would not be an itemized deduction but a subtraction from adjusted gross income which could be taken by itemizers or non-itemizers.

COA states that in FY 2002, approximately 278,000 returns would be over the cap by approximately \$700 for a total of \$11.7 million. Therefore, the estimate is increased by this amount. In FY 2002 approximately returns would be over the cap by approximately \$840 for a total of \$14 million. Therefore, the estimate is increased by this amount.

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

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DESCRIPTION

This bill authorizes an individual state income tax deduction for 100% of the amount paid during the tax year by a taxpayer for insurance which provides medical or health care coverage and any out-of-pocket medical costs incurred by a taxpayer to the extent the premiums or costs are included in federal adjusted gross income.

The bill will become effective January 1, 2001.

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
Department of Revenue
Office of Administration



Jeanne Jarrett, CPA
Director
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