

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 0895-01
BILL NO.: HB 495
SUBJECT: Insurance-Medical; Revenue Dept.; Taxation and Revenue - General and Income
TYPE: Original
DATE: May 15, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$159,055,177) to (\$254,355,177)	(\$165,800,000) to (\$265,900,000)	(\$173,017,000) to (\$278,058,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$159,055,177) to (\$254,355,177)	(\$165,800,000) to (\$265,900,000)	(\$173,017,000) to (\$278,058,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
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 authorizes a subtraction from federal adjusted gross income for medical insurance premiums and out-of-pocket medical costs, to the extent such amount is included in the taxpayer's federal adjusted gross income and is not otherwise deducted from the taxpayer's Missouri adjusted gross income.

DOR assumes the number of taxpayers eligible for this deduction is unknown at this time. DOR anticipates that the verification of this subtraction will have a minimum of forty seconds to one minute impact on processing each return. The Division of Taxation will need one temporary tax season employee for every 40,000 returns filed for processing and verifying this subtraction, and one tax season employee for every 3,000 pieces of correspondence generated from this subtraction. One Tax Processing Tech I will also be needed for every 30,000 income tax errors generated.

DOR states this legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$46,170. Modifications to the income 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 \$9,007 is requested for implementation costs.

Oversight has allowed the Department of Revenue \$55,177 for reprogramming expenses, State Data Center charges and implementation costs. Oversight assumes the DOR could handle the provisions of this proposal with existing resources or request additional staff through the budget process. Oversight assumes the DOR will require certification of eligibility for this subtraction by those applying for it. Failure to verify eligibility could result in costs beyond amounts estimated.

In a similar prior proposal, officials of the **Office of Administration, Budget and Planning (BAP)** stated this proposal allows a deduction for health insurance premiums and out-of-pocket medical expenses paid.

Health Insurance Deduction:

BAP officials state that \$4,205,036,928 in health insurance premiums were written in Missouri in FY 1998 per the Department of Insurance. BAP states that according to Table 168 in the 1998 Statistical Abstract, 27.15% of health insurance premiums are paid by individuals. BAP assumes

ASSUMPTION (continued)

that taxpayers would not adjust their withholdings in FY 2002 to take advantage of this credit. BAP 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%. BAP assumes a 3% annual growth. BAP estimates that revenue would be reduced by \$63.6 million in FY 2002, \$65.5 million in FY 2003 and \$67.5 million in FY 2004.

Out-of-pocket Medical Expense Deduction:

BAP states the out-of-pocket medical cost per capita from the Health Care Financing Administration's Health Care Expenditures Projections to be \$802 in FY 2002, \$842 in FY 2003 and \$884 in FY 2004. BAP 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. BAP 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. BAP 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%. BAP assumes a six percent marginal tax rate. BAP assumes the amount deducted would be ranged from fifty percent participation to one hundred percent participation. BAP estimates that revenue would be reduced by \$95.4 million to \$190.7 million in FY 2002, \$100.3 million to \$200.4 million in FY 2003 and \$105.6 million to \$210.6 million in FY 2004. BAP 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.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(6 Mo.)		
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Deduction for health insurance premiums	(\$63,600,000)	(\$65,500,000)	(\$67,465,000)
Deduction for out-of-pocket medical expenses	(\$95,400,000)	(\$100,300,000)	(\$105,552,000)
	to	to	to
	(\$190,700,000)	(\$200,400,000)	(\$210,593,000)
<u>Cost - Department of Revenue</u>			
Programming costs	<u>(\$55,177)</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$159,055,177)</u>	<u>(\$165,800,000)</u>	<u>(\$173,017,000)</u>
	<u>to</u>	<u>to</u>	<u>to</u>
	<u>(\$254,355,177)</u>	<u>(\$265,900,000)</u>	<u>(\$278,058,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2002 (6 Mo.)	 FY 2003	 FY 2004
	\$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 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
Budget and Planning



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Director
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