

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 0937-01
BILL NO.: HB 221
SUBJECT: Insurance-Medical; Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: March 16, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$50,624)	(\$156,001,773) to (\$258,701,773)	(\$161,501,826) to (\$269,501,826)
Total Estimated Net Effect on <u>All</u> State Funds	(\$50,624)	(\$156,001,773) to (\$258,701,773)	(\$161,501,826) to (\$269,501,826)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
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 Revenue (DOR)** stated fiscal impact (revenue or administrative), as unknown.

Office of Administration, Budget and Planning (BAP) officials state this proposal would have both a health insurance deduction and an out-of-pocket medical expense deduction.

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 that taxpayers would not adjust their withholdings in FY02 to take advantage of this credit. Based on data from Oversight it is assumed that 15% of all premiums paid by individuals are run through cafeteria plans and are not included in federal adjusted gross income (AGI). Therefore, the amount of premiums paid by individuals is lowered by 15%. BAP assumes a 6% marginal tax rate and a 3% annual growth. BAP estimates that revenue would be reduced by \$0 in FY 2002, \$67.5 million in FY 2003, and \$69.5 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 \$864 in FY 2002 and \$908 in FY 2003. 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. Based on data from Oversight it was assumed that 15% of all premiums paid by individuals are run through cafeteria plans and are not included in federal AGI. 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 \$0 in FY 2002, \$102.7 million to \$205.4 million in FY 2003, and \$107.9 million to \$215.9 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.

BAP states that in FY 2003, approximately 278,000 returns would be over the cap by approximately \$849 for a total of \$14.2 million. Therefore, the estimate is decreased by this amount. In FY 2004 approximately 278,000 returns would be over the cap by approximately \$955 for a total of \$15.9 million. Therefore, the estimate is decreased by this amount.

ASSUMPTION (continued)

Oversight assumes the cost estimate computed by BAP was prepared on the premise that the DOR would require documentation of out-of-pocket medical expenses. If the DOR elects to allow the \$2,000 deduction without documentation, the cost of this proposal could be up to \$456 million annually (3.8 million taxpayers x \$2,000 x 6% tax rate).

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

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Deduction health insurance premiums	\$0	(\$67,500,000)	(\$69,500,000)
Deduction for out-of-pocket medical expenses	\$0	(\$88,500,000) to (\$191,200,000)	(\$92,000,000) to (\$200,000,000)
<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$50,624)	(\$1,773)	(\$1,826)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$50,624)</u>	<u>(\$156,001,773)</u> to <u>(\$258,701,773)</u>	<u>(\$161,501,826)</u> to <u>(\$269,501,826)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$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 allows an individual income tax deduction for insurance premiums and out-of-pocket medical costs paid by a taxpayer up to \$2,000 per tax year. The deductible amount is only to the extent that the costs are included in a taxpayer's federal adjusted gross income. Out-of-pocket medical costs are those deductions allowed for health costs as a federal itemized deduction. The deduction will apply to tax year 2002 and ends after tax year 2006.

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 Revenue
Office of Administration



Jeanne Jarrett, CPA
Director
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