

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1002-01
Bill No.: HB 682
Subject: Insurance - Medical; Insurance Dept.
Type: Original
Date: March 5, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$64,743,607)	(\$66,400,000)	(\$68,300,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$64,743,607)	(\$66,400,000)	(\$68,300,000)

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 4 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 deduction equal to 100% of the health insurance premiums paid by an individual taxpayer, to the extent the premiums are included in the taxpayer's federal adjusted gross income and not already deducted from the individual's Missouri adjusted gross income.

The number of taxpayers eligible for this subtraction is unknown at this time. Assuming DOR will require documentation and verify this documentation, the Division of Taxation will need one temporary tax season employee for every 37,500 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation. Customer Assistance anticipates additional calls from this legislation and will need one Collection Technician I for every 24,000 calls per year received due to this legislation and one Field Agent for every 4,600 calls received in the field locations.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$47,582. 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 and \$9,007 for on-going costs.

Oversight assumes the Department of Revenue would require 692 hours of overtime at a cost of \$34,600 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$9,007 for additional storage and fields to be captured.

Office of Administration, Budget and Planning (BAP) officials state this proposal provides a 100% tax deduction for health insurance premiums. \$4,747,921,869 in health insurance premiums were written in Missouri in FY 2000 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 taxpayers will not adjust their withholdings in FY00 to take advantage of this deduction. BAP also assumes, based on information from Oversight, 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 three percent annual growth and a six percent tax rate. BAP estimates that revenue would be reduced by \$69.7 million in FY 2002, \$71.8 million in FY 2003 and \$74 million in FY 2004.

ASSUMPTION (continued)

Oversight assumes BAP estimates should be further reduced for the self-employed health insurance deduction since this amount is already excluded from Missouri adjusted gross income. Using information in Table 558 in the 1999 Statistical Abstract and assuming a 2% rate for the Missouri percent, a 7% growth rate and a 6% marginal tax rate, the estimated self-employed health insurance deductions in Missouri would be \$5 million for FY02, \$5.4 million for FY03 and \$5.7 million for FY04.

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 for health insurance premiums	(\$64,700,000)	(\$66,400,000)	(\$68,300,000)
<u>Cost - Department of Revenue</u>			
Programming costs	(\$43,607)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$64,743,607)</u>	<u>(\$66,400,000)</u>	<u>(\$68,300,000)</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 allows an individual income tax deduction for 100% of health insurance premiums paid by a taxpayer.

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

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and "R".

Jeanne Jarrett, CPA
Director
March 5, 2001