

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1292-01
Bill No.: HB 546
Subject: Insurance – Medical; Revenue Dept.; Taxation and Revenue – General; Taxation and Revenue – Income
Type: Original
Date: March 15, 2005

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|-----------------------------------------------------------|----------------|-----------------------------|-----------------------------|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| General Revenue | \$0 | Up to (\$76,540,000) | Up to (\$82,566,000) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | Up to (\$76,540,000) | Up to (\$82,566,000) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---------------------------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 4 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|-----------------------------------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--------------------------------------------|----------------|----------------|----------------|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Department of Health and Senior Services and Department of Insurance** assume this proposal would have no fiscal impact on their agencies.

Officials with the **Department of Revenue (DOR)** assume its Division of Taxation would have internal costs programming costs estimated to be \$109,504 and could need 2 FTE and a Tax Season Temporary to implement this legislation. However, DOR assumes it can manage these costs at current appropriation levels unless there is a material change in its other responsibilities.

U.S. Census Bureau statistics project total private expenditures for health insurance nationwide to be \$762 billion in (calendar year) 2006 and \$822 billion in 2007. In 2003, 9.2% of all private expenditures for insurance were paid for policies directly purchased by consumers. Applying such a percentage yields total projected expenditures for policies directly purchased by consumers of \$70.1 billion in (calendar year) 2006 and \$75.62 billion in 2007.

Census data also indicates that Missouri comprises approximately 2.06% of all nationwide personal health care expenditures. Applying such a percentage yields a projected Missouri total of directly-purchased consumer health insurance expenditures of \$1.44 billion in (calendar year) 2006 and \$1.56 billion in 2007.

RK:LR:OD (12/02)

ASSUMPTION (continued)

If 100% of such projected expenditures were deducted from state income tax and the average 2004 tax rate of 5.3% was applied, the estimated loss to General Revenue would be \$76.54 million in FY07 and \$82.57 million in FY08. However, **Oversight** assumes that not all taxpayers would have enough income to deduct 100% of such income. **Oversight** further assumes that any insurance premiums deducted in federal itemized deductions that presently apply to the Missouri income tax return could not be deduction again as a result of this proposal, thereby reducing the amount of additional deduction allowed by this act. Therefore, **Oversight** assumes that the loss to General Revenues as a result of this proposal would be somewhat lower than the estimated loss that would be created by 100% of all personally funded insurance premiums.

This proposal could reduce Total State Revenue.

| <u>FISCAL IMPACT - State Government</u> | FY 2006 (10 Mo.) | FY 2007 | FY 2008 |
|----------------------------------------------------|---------------------|----------------------------------------|----------------------------------------|
| GENERAL REVENUE | | | |
| <u>Loss</u> – Insurance Premium Tax Deduction | \$0 | Up to (\$76,540,000) | Up to (\$82,566,000) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>\$0</u> | <u>Up to (\$76,540,000)</u> | <u>Up to (\$82,566,000)</u> |
| <u>FISCAL IMPACT - Local Government</u> | FY 2006 (10 Mo.) | FY 2007 | FY 2008 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

Small businesses that sell health insurance policies to individuals could see an increase in sales as a result of this proposal.

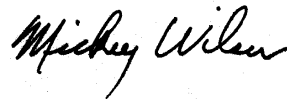
DESCRIPTION

This bill authorizes an income tax deduction, beginning with tax year 2006, for the cost of an individual's health insurance premiums. The deduction is for 100% of the cost of the premiums, but does not include employer-sponsored health plans.

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 Health and Senior Services
Department of Insurance
Department of Revenue
U.S. Census Bureau



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Director
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