COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3429-02
Bill No.: HCS for HB 1145
Subject: Insurance - Medical; Revenue Department; Taxation and Revenue.
Type: Original
Date: February 15, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	($2,736,000)	($2,736,000)	($2,736,000)
Total Estimated Net Effect on General Revenue Fund	**($2,736,000)**	**($2,736,000)**	**($2,736,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on Other 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 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue**, **Department of Insurance** and the **Department of Health and Senior Services** each assume the bill will not fiscally impact their respective agencies.

Officials from the **Department of Social Services (DOS)** state there is no fiscal impact to their agency. DOS states allowing a tax deduction for premium payments for long-term care insurance may encourage more people to purchase such insurance. However, DOS does not believe there would be any substantial savings to the Medicaid program. Purchasing and retaining long term care coverage until it is needed is not widespread in the general populace. There are no conclusive studies linking tax deductions to Medicaid savings.

Officials from the **Office of Administration - Budget and Planning** state according to the Tax Expenditure Report dated January 2005 published by the University of Missouri, $2.4 million will be lost for this provision in calendar year 2006. Therefore, this proposal will negatively impact general revenue and total state revenues by $2.4 million in Fiscal Years 2007 and beyond.

ASSUMPTION (continued)

According to the Department of Revenue's Tax Credit Analysis for the Long Term Care Tax Credit (Deduction), $60.8 million in deductions were claimed in Fiscal Year 2005. Couple this with a 4.5% marginal tax rate, and General Revenue was reduced by $2,736,000 from the 50% deduction. Therefore, **Oversight** assumes an additional $2,736,000 in lost revenue to the General Revenue Fund if the deduction is increased from 50% to 100%. Since the new deduction rate would be effective for tax years beginning on or after January 1, 2006, Oversight assumes a full year's worth of deductions in FY 2007.

Oversight acknowledges that an increase in long-term care insurance policy expenditures on the part of Missouri taxpayers could create Medicaid long-term care savings. However, any substantial Medicaid savings are likely to be beyond the date scope of this fiscal note.

This legislation would reduce Total State Revenue.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
Loss – Decreased Income Tax Receipts from increasing the long-term care insurance premium deduction from 50% to 100%	($2,736,000)	($2,736,000)	($2,736,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($2,736,000)**	**($2,736,000)**	**($2,736,000)**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$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 substitute changes the laws regarding the long-term care insurance tax deduction. For taxable years beginning after January 1, 2006, Missouri residents will be allowed to deduct from their taxable income an amount equaling 100% of all non-reimbursed amounts paid for qualified long-term care insurance premiums to the extent the amounts are included in the individual's adjusted gross income.

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 - Budget and Planning
Department of Social Services
Department of Health and Senior Services
Department of Insurance

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