

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3679-01  
Bill No.: HB 1156  
Subject: Insurance - Medical; Revenue Department; Taxation and Revenue.  
Type: Original  
Date: January 24, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$288,575 to Unknown)	(\$291,782 to Unknown)	(\$296,590 to Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$288,575 to Unknown)</b>	<b>(\$291,782 to Unknown)</b>	<b>(\$296,590 to Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

Officials from the **Department of Insurance** assume this proposal would not fiscally impact their agency.

Officials from the **Department of Revenue (DOR)** state this legislation allows a taxpayer to deduct the amount paid for medical insurance premiums and out-of-pocket medical costs on behalf of the taxpayer or their family, not to include the amount deducted for self-employment health insurance or the amount claimed as an itemized deduction on the taxpayer's federal income tax return. DOR assumes this deduction will impact a lot of taxpayers. DOR assumes the proposal will have the following administrative impact on their agency.

#### **FORMS COMMENT/IMPACT:**

This change will require an additional line on the Missouri income tax return (the MO-1040 and related forms). This may be confusing to the taxpayer, knowing whether they can deduct or not, with allowable deductions on Cafeteria Plans and Federal Schedule A for example.

ASSUMPTION (continued)

IT COMMENTS/IMPACT:

This legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, our IT staff will be moved to OA pursuant to consolidation, but we have no reason to believe this transfer will limit our ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

CUSTOMER SERVICE COMMENT/IMPACT:

Customer Service will require one Tax Collections Tech. I (at \$22,992 annually) for every additional 24,000 calls annually to the income tax hot line for general inquiry and adjusted refund notice. One Tax Collections Tech. I will also be required for every additional 15,000 calls annually to the delinquent tax line. And one Tax Processing Tech. I will be required for every additional 4,800 contacts in the field.

PERSONAL TAX COMMENT/IMPACT:

Personal Tax will require two additional temporary employees to key the additional line. Taxation has no way of determining the number of taxpayers who will take advantage of this deduction, but assume there will be a large number of them. DOR assumes verifying the out-of-pocket expenses will be very difficult and prone to questions and errors. Therefore, Personal Tax will also need 1 Tax Processing Technician I (at \$22,992 annually) for every 8,000 claims to verify documentation and 1 Tax Processing Technician I for every 2,500 additional pieces of correspondence to respond and make adjustments to accounts.

In summary, DOR assumes the need for five FTE as well as two temporary tax employees. Salary, fringe benefits and expense and equipment are estimated to total roughly \$200,000 per year.

According to the U.S. Census, the U.S. consumer spent \$230,483,000,000 in out of pocket personal health care expenditures in 2003. This amount consists of objects such as hospital care, physician and clinical care, prescription drugs, durable medical equipment and others. Also according to the U.S. Census, Missouri's expenditures for personal health care comprises roughly 2.05% of the nation's total. Therefore, **Oversight** makes the assumption Missouri consumers spent \$4,724,901,500 ( $\$230,483,000,000 \times 2.05\%$ ) on out of pocket health care in 2003.

ASSUMPTION (continued)

Multiplying that amount times the marginal tax rate of 4.5%, the amount of General Revenue that could be reduced from the out of pocket portion of the proposal is \$212,620,568. This amount would be reduced if the taxpayer utilized their out of pocket expenses in determining their Federal Tax Liability.

The calculation above does not account for the health insurance premiums paid by Missourians. Since that also is a deduction in this bill, they too would impact General Revenue.

**Oversight** was unable to obtain information regarding the amount of medical expense deductions Missourians utilized on their Federal Tax returns. Therefore, Oversight will assume the proposal will result in an unknown loss to the General Revenue Fund of over \$100,000.

**Oversight** assumes the Department of Revenue will not pay for additional office space for their 5 new FTE and have reduced their estimated cost accordingly.

**This proposal will reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE</b>			
<u>Cost</u> - Department of Revenue			
Personal Service (5 FTE)	(\$112,595)	(\$135,909)	(\$139,307)
Fringe Benefits	(\$43,265)	(\$53,216)	(\$54,546)
Expense and Equipment	<u>(\$32,715)</u>	<u>(\$2,657)</u>	<u>(\$2,737)</u>
<u>Total Costs</u> - DOR	(\$188,575)	(\$191,782)	(\$196,590)
<u>Loss</u> - Income tax deduction for health insurance premiums and out-of-pocket medical expenses	(Unknown - Greater than <u>\$100,000</u> )	(Unknown - Greater than <u>\$100,000</u> )	(Unknown - Greater than <u>\$100,000</u> )
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>(\$288,575 to <u>Unknown</u>)</b>	<b>(\$291,782 to <u>Unknown</u>)</b>	<b>(\$296,590 to <u>Unknown</u>)</b>

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.

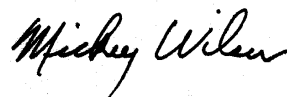
DESCRIPTION

This proposal allows an income tax deduction for health insurance premiums and out-of-pocket medical costs for the taxpayer and the taxpayer's spouse and dependents to the extent not already deducted on the taxpayer's Missouri or federal income tax returns for the taxable year.

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  
Department of Insurance



Mickey Wilson, CPA  
Director  
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