COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4612-01
Bill No.: HB 1677
Subject: Insurance - Medical; Revenue Department; Taxation and Revenue.
Type: Original
Date: February 21, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	($2,876,990)	($5,678,226)	($8,480,187)
Total Estimated Net Effect on General Revenue Fund	**($2,876,990)**	**($5,678,226)**	**($8,480,187)**

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 6 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 Insurance** and the **Department of Health and Senior Services** each assume the proposal will not fiscally impact their respective agencies.

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Revenue (DOR)** state this legislation allows a taxpayer, or taxpayer's spouse if married filing separate, to deduct the amount paid for qualified health insurance premiums (other than insurance coverage provided through the taxpayer's employer, ASSUMPTION (continued)

for the employee, employee's spouse, and dependants) equal to the percentage amounts as follows:

1) Up to 20% for tax year 2006
2) Up to 40% for tax year 2007
3) Up to 60% for tax year 2008
4) Up to 80% for tax year 2009
5) Up to 100% for tax year 2010

DOR is to promulgate rules for these provisions. This legislation would sunset after 6 years unless reauthorized, then it would sunset after 12 years.

DOR assumes this change will require an additional line on the Missouri income tax return (the MO-1040 & related forms).

DOR's Personal Tax will require one additional temporary employee 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. Therefore, Personal Tax will also need 1 Tax Processing Technician I for every 19,000 claims/errors due to verification & lack of documentation and 1 Tax Processing Technician I for every 2,400 additional pieces of correspondence to respond and make adjustments to accounts.

This legislation will require modifications to individual and corporate income tax systems. DOR's Taxation estimates these modifications will require a MINITS programming costs of $46,170 (1,384 hours). COINS will also need to be modified for a programming cost of $23,085 (692 hours). The department proposes to cover these costs with current IT staff. Effective July 1, 2006, DOR's IT staff will be moved to the Office of Administration pursuant to consolidation, but DOR has no reason to believe this transfer will limit their 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.

DOR assumes the cost of the two additional FTE plus temporary would cost roughly $85,000 per year.

Oversight assumes DOR will not incur additional Floor Space expense for the additional FTE.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates a phased-in income tax deduction for the cost of personally funded health insurance premiums. According to the US Bureau of Labor Statistics 2004 Consumer Expenditure Survey, the average consumer unit spent $1,332 on health insurance. The average consumer unit had 2.5 people, implying an estimated $533 per person for health insurance. The latest US Census Bureau estimate for Missouri was 5.8 million people, therefore an estimated $3.1 billion was spent on health insurance in Missouri in 2004.

The US Census Bureau, in its publication Income, Poverty, and Health Insurance Coverage in the United States 2004, estimates that 85% of citizens have some sort of health insurance, and that 9% are covered by privately acquired plans. Taking this ratio implies that 10.5% of health insurance premiums go toward private plans. Applying this percentage to the spending estimate above suggests $310 million was spent on personally funded health insurance in 2004.

Assuming a 4.5% marginal tax rate, this proposal would lower general and total state revenues by $13.95 million annually when fully implemented. In FY 2007, at 20%, the impact would be a $2.8 million loss, $5.6 million in FY08, and $8.4 million in FY09.

BAP notes that, according to the IRS website, premiums for health insurance may already be deductible from federal AGI.

Oversight has utilized information from the US Census Bureau and produced estimates similar to those provided by BAP. Therefore, Oversight will utilize BAP's estimate for the reduction in income from the proposal.

This proposal will reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Costs - Department of Revenue			
Personal Service	($39,278)	($48,312)	($49,520)
Fringe Benefits	($17,306)	($21,286)	($21,818)
Expense and Equipment	($13,206)	($1,063)	($1,095)
Temporary Employees	($7,200)	($7,565)	($7,754)
Total Costs - DOR	($76,990)	($78,226)	($80,187)

FISCAL IMPACT - State Government (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
Loss - Insurance Premium Tax Deduction	($2,800,000)	($5,600,000)	($8,400,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**($2,876,990)**	**($5,678,226)**	**($8,480,187)**

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 authorizes a phased-in income tax deduction for health insurance premiums paid by the taxpayer for the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. For tax year 2006, a 20% deduction is allowed, 40% for 2007, 60% for 2008, 80% for 2009, and 100% for 2010.

The provisions of the proposal will expire six years from the effective date.

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 Insurance
Department of Health and Senior Services
Office of the Secretary of State

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