

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0714-03
Bill No.: HCS for HB 364
Subject: Insurance - Medical; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 5, 2007

Bill Summary: Would authorize an income tax deduction for the cost of personally funded health insurance premiums.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$2,420,215 to \$11,220,215)	(\$2,429,524 to \$11,229,524)	(\$2,433,245 to \$11,233,245)
Total Estimated Net Effect on General Revenue Fund	(\$2,420,215 to \$11,220,215)	(\$2,429,524 to \$11,229,524)	(\$2,433,245 to \$11,233,245)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> 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 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	3.0	3.0	3.0
Total Estimated Net Effect on FTE	3.0	3.0	3.0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

Officials from the **Department of Revenue** (DOR) stated that this proposal would allow every taxpayer a deduction for the health insurance premiums paid for the taxpayer, taxpayer's spouse, and taxpayer's dependents. It would also allow those who included health insurance in with their medical expenses when itemizing their deductions, an additional deduction for their premiums paid. The proposal would require one additional line on Form MO-A.

DOR assumes:

Personal Tax would require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Technician I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Technician I for every 2,400 pieces of correspondence. They would also require 2 Temporary Tax Employees for key-entry of 1040P and PTC forms, and 1 Tax Processing Technician I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Customer Services would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation, and 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency/collections lined on billings and denied deductions due to lack of documentation. They would also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices. DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

Office of Administration Information Technology (ITSD/DOR) estimates the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed. to implement. ITSD/DOR estimates that this legislation could be implemented utilizing 5 existing CIT III for 2 months at a cost of \$41,860.

In summary, DOR submitted a cost estimate for eight FTE additional staff, and related equipment and expense with a total of \$337,796 for FY 2008, \$361,811 for FY 2009, and \$370,981 for FY 2010. The DOR estimate for a similar proposal in the previous session included only three new FTE. In response to a similar proposal in the previous session (HB 1941, LR 4411-03), DOR assumed the need for three additional FTE Tax Processing Tech I plus four tax season temporary employees.

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ASSUMPTION (continued)

Oversight will use the previous DOR assumption, and will further assume that DOR would be able to implement the proposal with existing IT staff. If multiple provisions are enacted requiring additional staffing or if unanticipated costs are incurred, DOR could request resources through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional staff to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) did not respond to our request for information. In response to a similar proposal in the previous session (HB 1677 LR 4612-01, 2006) BAP provided the following demographic information:

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. Assuming a 4.5% marginal tax rate, the proposal would lower general and total state revenues by \$140 million (\$3.1 billion x 4.5% marginal tax rate) annually when fully implemented.

BAP noted that this deduction would only apply to health insurance premiums included in Federal Adjusted Gross Income (FAGI). It is likely that a significant amount of health insurance premiums are excluded from FAGI if the taxpayers participate in "cafeteria" plans. Further, taxpayers that itemize their deductions may already deduct these payments. Therefore, the figures above may overstate the actual impact by an unknown amount.

Oversight has collected information regarding an existing program in the State of Utah which is similar to this proposal. Oversight will utilize information regarding Utah's program to estimate the fiscal impact of this bill to Missouri.

ASSUMPTION (continued)

Oversight was not able to determine the number of health care premium amounts that were taken as a deduction on taxpayers's federal return or the percentage of health insurance premiums that were paid through a cafeteria plan (pre-tax). Oversight was also not able to determine the comparability of the demographics of the state of Utah and the state of Missouri. However, Oversight will assume a similar number of Missouri residents will qualify for and take the deduction allowed in this proposal.

Utilizing the number of returns filed in Utah in 2004 (990,317) compared to Missouri (2,241,250), Oversight calculated a range of fiscal impact for a similar same program in Missouri from \$9.2 million to \$22.2 million per year. Officials from the Office of Administration, Division of Personnel advised us that 56.9% of state employees pay their health insurance premiums using the cafeteria plan. Assuming the statewide cafeteria plan participation rate would range from 25% to 50% would mean that the fiscal impact of this proposal would range from \$2.3 million \$11.1 million per year.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Cost - Department of Revenue</u>			
Personal Service (3 FTE)	(\$53,460)	(\$66,077)	(\$68,059)
Fringe Benefits	(\$23,554)	(\$29,113)	(\$29,987)
Tax Season Temporaries	(\$26,650)	(\$32,780)	(\$33,599)
Expense and Equipment	(\$16,551)	(\$1,554)	(\$1,600)
<u>Total Costs - DOR</u>	<u>(\$120,215)</u>	<u>(\$129,524)</u>	<u>(\$133,245)</u>
<u>Loss - Department of Revenue</u>			
Revenue reduction due to a deduction for personally funded health insurance premiums.	<u>(\$2,300,000 to \$11,100,000)</u>	<u>(\$2,300,000 to \$11,100,000)</u>	<u>(\$2,300,000 to \$11,100,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$2,420,215 to \$11,220,215)</u>	<u>(\$2,429,524 to \$11,229,524)</u>	<u>(\$2,433,245 to \$11,233,245)</u>
Estimated Net FTE Change for General Revenue Fund	3.0 FTE	3.0 FTE	3.0 FTE

FISCAL IMPACT - Local Government

FY 2008
(10 Mo.)

FY 2009

FY 2010

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would authorize an income tax deduction, beginning in tax year 2007, for the cost of personally funded health insurance premiums.

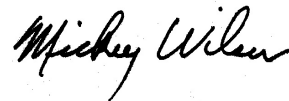
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Health and Senior Services
Department of Insurance, Financial Institutions, and professional Registration
Department of Revenue

NOT RESPONDING

Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
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