COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0493-01
Bill No.: SB 26
Subject: Taxation and Revenue - Income; Health Care; Insurance - Medical
Type: Original
Date: January 14, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	$0	($35,130,770)	($37,764,330)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($35,130,770)**	**($37,764,330)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow Missouri residents to deduct 25% of their non-reimbursed expenditures for health insurance from Missouri Individual Income Tax. BAP estimates the amount spent by Missourians who are not self-employed for health insurance will be $2.2 billion in FY03, $2.3 billion in FY04, and $2.5 billion in FY05. BAP assumes the potential Missouri income tax loss amount under this proposal would be $32.5 million in FY04, $34.9 million in FY05, and $37.6 million in FY06. BAP noted that Federal law allows the self-employed to deduct their health insurance premiums from their Federal Individual Income Tax. This deduction flows through to the Missouri Individual Income Tax.

BAP used data form the U.S. Department of Commerce and assumed the following:

- Missouri accounts for 1.8% of national consumer spending.
- Growth beyond the year 2000 will be 7.5% per year. This is the approximate average of the last three years.
- The potential revenue loss assumes a 6% tax rate.

BAP has no basis for estimating what percent of those who qualify for this proposed deduction will claim the deduction.

ASSUMPTION (continued)

Officials of the **Department of Revenue (DOR)** state this legislation creates a deduction from Missouri adjusted gross income equal to 25% of all unreimbursed health insurance premiums paid by individuals, to the extent the premiums are not already included in the taxpayer's itemized deductions or claimed as a long-term care insurance premium deduction or tax credit. DOR is required to place a line on all Missouri tax returns for this deduction.

DOR will have to add a line on the Missouri 1040, 1040A, 1040B and 1040C tax returns. DOR assumes this line will affect the majority of the returns filed and will have to be pre-edited and keyed. DOR estimates that they will need 8 Tax Season Temporaries to handle the additional line for pre-edit verification and keying; One Tax Processing Tech I for every 30,000 additional errors and One Tax Processing Tech I for every 3,000 additional pieces of correspondence created by this legislation.

DOR anticipates additional calls from this legislation and will need One Collection Tech I for every 24,000 additional calls to the 751-3505 and 751-7200 hotline numbers and One Tax Processing Tech I for every 4,600 calls received in the field locations due to this legislation.

DOR assumes it will have to modify the MINITS mainframe and the PC applications to accommodate the data entry and edits of this deduction. DOR estimates that 1,384 hours of programming and testing will be required at a cost of $46,170.

DOR did not provide an estimate of the general revenue impact.

Officials of the **Department of Social Services (DOS)** state this proposed legislation would allow individuals to deduct up to 25% of all non-reimbursed amounts for qualified health care insurance premiums from their Missouri taxable income amount.

While the proposed legislation could result in more affordable insurance, it would be impossible for the Division of Medical Services (DMS) to calculate an amount of savings. Therefore, there is not a fiscal impact to the DMS.

Officials of the **Department of Insurance (INS)** state this legislation creates a tax credit equal to 25% of unreimbursed qualified health insurance premiums paid by individuals. Qualified health insurance includes disability income, specified disease insurance, accident only and all other forms of accident or health insurance. No fiscal impact is expected to INS.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Loss - General Revenue Fund			
Deduction for health ins premiums	$0	($34,900,000)	($37,600,000)
Cost - Dept. of Revenue			
Personal Service (8 temp, 4 FTE)	$0	($128,800)	($130,724)
Fringe Benefits	$0	($31,121)	($31,900)
Expense and Equipment	$0	($23,524)	($1,706)
Programming	$0	($47,325)	$0
Total Costs - DOR	$0	($230,770)	($164,330)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($35,130,770)**	**($37,764,330)**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$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 tax credit for individual taxpayers for 25% of the unreimbursed cost of qualified health-care 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 Revenue
Office of Administration
Division of Budget and Planning
Department of Social Services
Department of Insurance

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Director
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