

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3373-01
Bill No.: SB 622
Subject: Business and Commerce; Employees - Employers; Insurance - Medical; Taxation and Revenue.
Type: Original
Date: February 7, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0	(\$106,430 to Unknown)	(\$89,036 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$106,430 to Unknown)	(\$89,036 to Unknown)

* Could substantially exceed \$100,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> 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 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> 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 with the **Department of Insurance** and **Department of Labor and Industrial Relations** each assume this proposal would have no fiscal impact on their respective agencies.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Revenue's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 12 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 18 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$738, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume the proposal would have the following administrative impact on their agency:

- DOR's Personal Tax will require two additional temporary employees to key the additional line added to the MO-A. Taxation has no way of determining the number of taxpayers who will take advantage of this deduction, but assume there will be a number of them. Therefore, Personal Tax will also need 1 Tax Processing Technician I for every 19,000 errors and 1 Tax Processing Technician I for every 2,500 additional pieces of correspondence.
- DOR's Customer Services anticipates a higher than normal volume of calls, but will handle them with existing staff.
- DOR's Information Technology assumes the need to make modifications to individual and corporate income tax systems. 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). DOR 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 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.

In summary, DOR anticipates a cost of roughly \$95,000 in each of the three fiscal years of the fiscal note to administer this proposal.

Oversight assumes DOR would not need additional FTE to administer this proposal until FY 2008. Oversight also assumes DOR would not pay for additional floor space in Jefferson City.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the legislation creates the "Small Business Health Insurance Expenses Deduction". This proposal provides a deduction from federal adjusted gross income of 100% of costs of qualifying small businesses or farmers for providing health insurance to employees. BAP assumes a large number of small businesses and farmers currently provide insurance, or will be induced to provide insurance if this proposal is passed. This proposal would reduce General and Total State Revenues by an unknown significant amount.

ASSUMPTION (continued)

Oversight assumes this proposal would permit an income tax deduction for small businesses and farmers that provide health insurance for employees. The deduction would be equal to 100% of expenses related to providing employees with health insurance. **Oversight** assumes that a significant number of small businesses and farmers presently provide such coverage and that this proposal could encourage others to do the same.

Oversight assumes that a portion of such expenses are presently deducted on federal tax returns, thereby presently reduced Missouri income tax liability. This proposal would create an additional deduction beyond the present amount, thereby reducing General Revenue by an unknown amount.

This proposal would reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (2 FTE)	\$0	(\$48,312)	(\$49,520)
Fringe Benefits	\$0	(\$21,286)	(\$21,819)
Expense and Equipment	\$0	(\$21,703)	(\$2,190)
Temporary Tax Employees	<u>\$0</u>	<u>(\$15,129)</u>	<u>(\$15,507)</u>
<u>Total Costs - DOR</u>	<u>\$0</u>	<u>(\$106,430)</u>	<u>(\$89,036)</u>
 <u>Loss</u> – Reduced Income Tax Receipts from income tax deduction for small businesses and farmers that provide health insurance coverage for employees*	 <u>\$0</u>	 <u>(Unknown)</u>	 <u>(Unknown)</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE	 <u>\$0</u>	 <u>(\$106,430 to Unknown)*</u>	 <u>(\$89,036 to Unknown)*</u>

* Expected to exceed \$100,000

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that provide health insurance would be fiscally impacted from this proposal.

DESCRIPTION

This proposal creates an income tax deduction for small businesses and farmers that provide health insurance coverage for employees. The deduction will be equal to one hundred percent of expenses related to providing employees with health insurance.

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 Labor and Industrial Relations
Office of the Secretary of State



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Director
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