COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4586-01
Bill No.: SB 918
Subject: 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	($2,736,000)	($2,736,000)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($2,736,000)**	**($2,736,000)**

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 5 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 bill will not fiscally impact their respective agencies.

Officials from the **Department of Social Services (DOS)** state there is no fiscal impact to their agency. DOS stated allowing a tax deduction for premium payments for long-term care insurance may encourage more people to purchase such insurance. However, DOS does not believe there would be any substantial savings to the Medicaid program. Purchasing and retaining long term care coverage until it is needed is not widespread in the general populace. There are no conclusive studies linking tax deductions to Medicaid savings.

Officials from the **Office of Administration - Budget and Planning** state according to the Tax Expenditure Report dated January 2005 published by the University of Missouri, $2.4 million will be lost for this provision in calendar year 2006. Therefore, this proposal will negatively impact general revenue and total state revenues by $2.4 million in Fiscal Years 2007 and beyond.

Officials from the **Department of Revenue (DOR)** state this proposal changes the amount of deduction an individual may take for premiums paid on long-term care insurance, from 50% to 100%, effective January 1, 2007.

ASSUMPTION (continued)

DOR's Administrative Impact:

This new section (along with the existing Section 135.096) creates a possibility for individuals to claim 150% deduction over all. Section 135.096 authorizes a 50% deduction and this new section (143.083) would authorize a 100% deduction. This new section will also create an additional line on the tax return for the new credit. Any increase in the number of lines on the tax return creates the need for additional staff to maintain current processing levels.

DOR's Personal Tax would require 1 Temporary Tax Employee for key-entry of the additional line, 1 Tax Processing Technician I for every 19,000 errors, and 1 Tax Processing Technician I for every 2,500 pieces of correspondence.

As written, the call center will see a large impact and anticipates the need for 1 Tax Collection Technician I for every 24,000 calls a year on denied claims due to no documentation supporting the deduction, and 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency tax line on billings due to no documentation. Customer Assistance also anticipates the need for 1 Tax Processing Technician I in the field offices for every additional 4,800 contacts (with the belief that not "every" field office will see this number of contacts, Tax is requesting 1 TPT for each of the "large" field offices….KC, St. Louis, and Springfield).

In summary, as the proposal is written, DOR assumes a cost of $266,432 in FY 2007 and roughly $280,000 in the two following fiscal years to administer the new deduction. DOR states should the language be changed to no longer need the additional line on the return, the FTE impact would be reduced or possibly eliminated.

In response to similar bills from this year (HB 1121 and HB 1145), DOR assumed the proposal would not fiscally impact their agency.

Oversight assumes the intention of the bill is to simply increase the deduction for long-term care insurance premiums from 50 percent to 100 percent, and therefore assumes DOR can administer the changes from the proposal with existing resources.

According to the Department of Revenue's Tax Credit Analysis for the Long Term Care Tax Credit (Deduction), $60.8 million in deductions were claimed in Fiscal Year 2005. Couple this with a 4.5% marginal tax rate, and General Revenue was reduced by $2,736,000 from the 50% deduction. Therefore, **Oversight** assumes an additional $2,736,000 in lost revenue to the General Revenue Fund if the deduction is increased from 50% to 100%. Since the new deduction rate would be effective for tax years beginning on or after January 1, 2007, Oversight

ASSUMPTION (continued)

assumes no fiscal impact from the proposal until FY 2008.

Oversight acknowledges that an increase in long-term care insurance policy expenditures on the part of Missouri taxpayers could create Medicaid long-term care savings. However, any substantial Medicaid savings are likely to be beyond the date scope of this fiscal note.

This legislation would reduce Total State Revenue.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
Loss – Decreased Income Tax Receipts from increasing the long-term care insurance premium deduction from 50% to 100%	$0	($2,736,000)	($2,736,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($2,736,000)**	**($2,736,000)**

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 provides a tax deduction for 100% of the amount the taxpayer has paid for long-term 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 - Budget and Planning
Department of Social Services
Department of Health and Senior Services
Department of Insurance

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