

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0369-02
Bill No.: SB 7
Subject: Health Care; Insurance - Medical; Taxation and Revenue - Income
Type: Original
Date: February 14, 2007

Bill Summary: Would create an income tax deduction for medical expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$133,540 to Unknown)	(\$145,913 to Unknown)	(\$150,044 to Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$133,540 to Unknown)	(\$145,913 to Unknown)	(\$150,044 to Unknown)

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 **Office of Administration, Administrative Hearing Commission**, and the **Department of Health and Senior Services (DOHSS)** assume this proposal would have no fiscal impact on their organization.

Officials from the **University of Missouri Economic and Policy Analysis Research Center (EPARC)** assume this proposal would permit individual income tax filers to deduct payments for health insurance premiums and out-of-pocket medical expenses from their taxable income, if those expenditures were included in their federal adjusted gross income. EPARC officials stated they did not have sufficient data to estimate the fiscal impact of the proposal.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** there would be no added cost to their organization as a result of this proposal. BAP deferred to the Department of Revenue for an estimate of revenue loss to the state as a result of this proposal. However, in response to a proposal in the previous session (HB 1677 LR 4612-01, 2006) BAP provided the following demographic information regarding health insurance expenditures.

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.

Oversight assumes 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. Oversight does not have more detailed information available regarding health insurance and out-of-pocket health care expenditures. Accordingly, Oversight will assume this proposal would result in an unknown reduction in income tax revenue for the General Revenue Fund.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a taxpayer to deduct 100% of the amount paid for medical insurance premiums and out-of-pocket medical costs from Missouri Adjusted Gross Income to the extent those amounts were included in the taxpayer's Federal Adjusted Gross Income and has not been included as an itemized deduction.

DOR assumes that Personal Tax would need to create an additional line on the income tax form, and assuming most Missouri taxpayers would be allowed to at least claim a deduction for their insurance premiums on the return, would require 6 Tax Season Temporary Employees for key-entry of Missouri income tax returns, 1 Tax Processing Technician I for every 19,000 errors, and 1 Tax Processing Technician I for every 2,400 pieces of correspondence. This would also create a need for additional staff to process the Missouri Form 1040P and Property Tax Credit. In addition, 1 Tax Processing Technician I would be required for every 5,000 Property Tax Credit errors and correspondence.

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 line on billings and denied deductions due to lack of documentation. Customer Service would also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices. DOR anticipates most customers would contact the department via phone, therefore, would only request 1 FTE for each of the larger field offices, located in Kansas City, St. Louis, & Springfield.

In summary, DOR included a cost estimate to implement this proposal including 8.0 additional FTE, and related equipment and expense, totaling \$356,992 for FY 2008, \$385,423 for FY 2009, and \$395,183 for FY 2010. 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.

Oversight has, for fiscal note purposes only, changed the starting salary for the new positions 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. Oversight has also adjusted the DOR equipment and expense estimates in accordance with OA budget guidelines. Finally, Oversight assumes DOR could accommodate the additional employees in existing office space. If unanticipated costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

<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	(\$39,975)	(\$49,169)	(\$50,398)
Expense and Equipment	<u>(\$16,551)</u>	<u>(\$1,554)</u>	<u>(\$1,600)</u>
<u>Total Costs - DOR</u>	<u>(\$133,540)</u>	<u>(\$145,913)</u>	<u>(\$150,044)</u>
<u>Loss - Department of Revenue</u>			
Revenue reduction due to a deduction for personally funded health insurance premiums and out-of-pocket costs. *	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND *	<u>(\$133,540 to Unknown)</u>	<u>(\$145,913 to Unknown)</u>	<u>(\$150,044 to Unknown)</u>
* Unknown expected to exceed \$100,000.			
Estimated Net FTE Change for General Revenue Fund	3.0 FTE	3.0 FTE	3.0 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

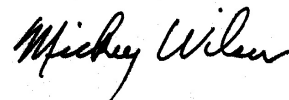
FISCAL DESCRIPTION

This proposal would create an income tax deduction for medical expenses. Health insurance premiums and out-of-pocket medical costs paid from income included in federal adjusted gross income and not previously deducted as federal itemized deductions would be a deduction from Missouri adjusted gross income.

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

Office of Administration
 Administrative Hearing Commission
 Division of Budget and Planning
Department of Health and Senior Services
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
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