

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3729-01  
Bill No.: SB 893  
Subject: Business and Commerce; Employees - Employers; Insurance - Medical; Taxation and Revenue - Income  
Type: Original  
Date: February 29, 2008

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Bill Summary: Would create an income tax deduction for small businesses and farmers that provide health insurance coverage for employees.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
General Revenue		(More than \$162,707)	(More than \$188,454)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(More than \$162,707)</b>	<b>(More than \$188,454)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	0	2	2
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>2</b>	<b>2</b>

☒ 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 2009	FY 2010	FY 2011
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

Officials from the **Office of the Secretary of State (SOS)** provided this response.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

The proposal would create the "Small Business Health Insurance Expenses Deduction". This proposal would provide a deduction from federal adjusted gross income equal to 100% of the 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 would be induced to provide insurance if this proposal is passed. BAP assumes this deduction would be in addition to the business expense deduction allowed on the federal tax return, and that the proposal would reduce General and Total State Revenues by an unknown significant amount.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume that this proposal would permit small businesses and farmers to deduct monies spent on health insurance coverage for employees. EPARC officials stated they did not have data for individual expense items and could not quantify the impact that this would have on the net tax due paid by these filers.

ASSUMPTION (continued)

**Oversight** assumes this proposal would result in a deduction from federal adjusted gross income equal to expenditures for employee health insurance coverage. Oversight does not have an estimate of these expenditures and assumes there would be an unknown amount of expenditures that would be currently eligible for this deduction as well as a limited number of employers who would offer employee health insurance as a result of this proposal. The result would be an unknown loss of revenue to the state for tax years beginning January 1, 2009 (FY 2010).

Officials from the **Department of Revenue** (DOR) assume this proposal would create a Small Business Health Insurance Expenses Deduction for any small business or farmer who incurs expenses in providing health insurance for its employees. The taxpayer could deduct 100% of the expenses incurred in providing health insurance to its employees. DOR assumes that changes would be required to the individual income tax forms and the MINITS system, to the corporate income tax forms, and to the COINS and CAFÉ systems.

DOR estimated the administrative impact as follows. Personal Tax would require two Temporary Tax Employees for key-entry, one Tax Processing Technician I to verify every 19,000 returns, and one Tax Processing Technician I for every 2,400 pieces of correspondence.

DOR provided an estimate of the cost to implement this proposal including two additional employees and the related equipment and expenses totaling \$92,763 for FY 2009, \$101,317 for FY 2010, and \$104,356 for FY 2011.

**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 adjusted equipment and expenditures in accordance with OA budget guidelines, and assumes that a limited number of additional employees could be accommodated in existing office space. Oversight assumes the additional employees would be required when the program becomes effective in FY 2010.

ASSUMPTION (continued)

DOR officials also provided this estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing one existing CIT III for two months for modifications to MINITS, and four existing CIT III for one month for modifications to COINS, CAFÉ, Corporate E-File, and Data Warehouse. The total estimated cost would be \$25,116. ITSD/DOR assumes the IT portion of this request could be accomplished with existing resources, however; if priorities shift, additional FTE/overtime would be needed.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> - deduction for small business and farmers employee health insurance costs	\$0	(Unknown)	(Unknown)
<u>Cost - Department of Revenue</u>			
Personal Service (2FTE)	\$0	(\$105,140)	(\$129,953)
Fringe Benefits	\$0	(\$46,493)	(\$57,465)
Expense and Equipment	<u>\$0</u>	<u>(\$11,074)</u>	<u>(\$1,036)</u>
Totals	<u>\$0</u>	<u>(\$162,707)</u>	<u>(\$188,454)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>(More than \$162,707)</u></b>	<b><u>(More than \$188,454)</u></b>
Estimate net FTE Effect on General Revenue Fund	0	2	2
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<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.

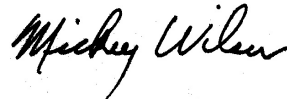
FISCAL DESCRIPTION

The proposed legislation would create a deduction for small business and farmer employee health care expenses.

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 the Secretary of State  
Office of Administration  
    Division of Budget and planning  
Department of Revenue  
University of Missouri  
    Economic and Policy Analysis Research Center



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Director  
February 29, 2008