

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0400-01
Bill No.: SB 103
Subject: Business and Commerce; Employees - Employers; Insurance - Medical; Taxation and Revenue - Income
Type: Original
Date: February 4, 2009

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0	(\$70,506,078 to \$184,706,078)	(\$70,498,639 to \$184,698,639)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$70,506,078 to \$184,706,078)	(\$70,498,639 to \$184,698,639)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	0	2	2
Total Estimated Net Effect on FTE	0	2	2

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 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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 of 100% of the costs of qualifying small businesses or farmers for providing health insurance to employees.

BAP defers to DOR as to whether the proposal would allow for an additional health insurance expense deduction from federal adjusted gross income on the Missouri tax return. A health insurance expense deduction is already available on the federal tax return.

According to the U.S. Census Bureau, there are 154,546 small businesses in Missouri that employ less than 50 workers at their establishments. These small businesses employ approximately 1,117,107 workers. According to a survey conducted by Agency for Healthcare Research and Quality², the average monthly premium for single employee and family healthcare coverage was \$3,504 and \$9,180 respectively. Assuming that the employer contribution towards the premium is approximately 80%, the average per-employee expenditure by a Missouri small business on health insurance coverage would be between \$2,803 and \$7,344. Therefore, the total expenditure by Missouri small businesses on health insurance coverage would be between \$3,131 million and \$8,204 million.

The above calculation assumes that all small businesses provide health insurance coverage for their employees. However, a 2008 study by the Kaiser Family Foundation³ found that only 62% of firms that employ less than 200 workers offer health benefits and only 49% of firms that employ 3 to 9 workers provide health insurance for their employees. Assuming that 50% of small businesses in Missouri currently offer health insurance benefits for their employees, the total expenditure on coverage would be between \$1,565 million and \$4,102 million.

Assuming a 4.5% effective tax rate, this proposal could lower general and total state revenues between \$70.4 million and \$184.6 million.

ASSUMPTION (continued)

In response to similar proposals, officials from the **Office of the Secretary of State (SOS)** provided the following 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 **Department of Revenue (DOR)** assume this proposal would create the "Small Business Health Insurance Expenses Deduction." which would allow a taxpayer to deduct 100% of the expenses incurred in providing health insurance to its employees for all tax years beginning on or after January 1, 2010. DOR would promulgate rules to administer these provisions.

Modifications to individual income tax forms and the MINITS system would be required, and modifications to corporate income tax forms and the COINS and Café systems would be required.

Personal Tax would need two Temporary Tax Employees for key-entry, one FTE Tax Processing Technician I (Range 10, Step L) to verify every 19,000 returns, and one FTE Tax Processing Technician I (Range 10, Step L) for every 2,400 pieces of correspondence.

DOR officials provided an estimate of the cost to implement the proposal, including two additional employees and related equipment and expenditures, totaling \$90,618 for FY 2010, \$98,721 for FY 211, and \$101,683 for FY 2012.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 estimate of equipment and expense costs in accordance with OA budget guidelines. Finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

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

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimate the IT portion of this request could be implemented using one FTE existing CIT III for two months for system modifications to the MINITS system, and four FTE existing FTE for one month for system modifications to the COINS, Café, and E-file systems and and the EDW interface at a total cost of \$26,646. ITSD/DOR officials assume the proposal could be implemented with existing resources; however, if priorities shift additional FTE/overtime would be needed.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) stated that this proposal would if enacted, permit small businesses and farmers to deduct monies spent on health insurance coverage for employees. EPARC officials noted that their data does not include individual expense items. Accordingly, there is no way for EPARC to quantify the impact that this proposal would have on the net tax due paid by these filers.

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 those expenditures and assumes there would be an unknown amount of health insurance 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, 2010 (FY 2011).

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - deduction for small business and farmers employee health insurance costs	\$0	(\$70,400,000 to \$184,600,000)	(\$70,400,000 to \$184,600,000)
<u>Cost</u> - Department of Revenue			
Personal Service (2FTE)	\$0	(\$63,271)	(\$65,169)
Fringe Benefits	\$0	(\$30,769)	(\$31,692)
Expense and Equipment	<u>\$0</u>	<u>(\$12,038)</u>	<u>(\$1,778)</u>
Totals	<u>\$0</u>	<u>(\$106,078)</u>	<u>(\$98,639)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$70,506,078 to \$184,706,078)</u>	<u>(\$70,498,639 to \$184,698,639)</u>

Estimate net FTE Effect on General Revenue Fund	0	2	2
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<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses.

FISCAL DESCRIPTION

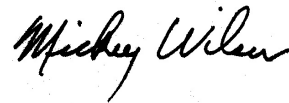
This proposal would create an income tax deduction for small businesses and farmers that provide health insurance coverage for employees.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of Administration
 Division of Budget and Planning
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



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