

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3033-02
Bill No.: SB 778
Subject: Health Care; Insurance - Medical; Taxation and Revenue - Income
Type: Original
Date: February 11, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$66,719)	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$66,719)	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Department of Insurance (INS) officials assume this legislation establishes a tax deduction for contributions made to medical savings accounts. Deductions are restricted to taxpayers who are eligible for a federal deduction under Section 220 of the Internal Revenue Code. Deductions limited to \$2,000 for individual and \$5,000 per household. No fiscal impact is expected to the INS.

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** state this proposal would allow a state tax deduction for those who contribute to a “medical savings account.” The cost of this proposal hinges on the number of individuals/corporations who would be induced to participate in such a program as well as the amount of money they would place in such an account. BAP has no empirical basis for estimating these factors. The Division of Accounting may have data regarding state employee participation in cafeteria plan programs. BAP assumes this bill would have no impact on the Office of Administration.

Officials of the **Department of Revenue (DOR)** assume this legislation allows a deduction for up to \$2,000 for individuals and \$5,000 for a family, equal to the amount the taxpayer contributes to a medical savings account. A taxpayer will not be allowed a deduction on the Missouri return if a federal deduction has been taken.

The number of taxpayers eligible for this deduction is unknown at this time. However, the DOR does not anticipate a large number of taxpayers will be eligible for the state deduction due to the fact that they will take the federal tax deduction. Therefore, the DOR will not request FTE at this time. However, if the DOR is incorrect in its assumption, the following FTE will be requested through the normal budget process:

One temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. Also, DOR will need one Tax Processing Tech I for every 30,000 errors generated by this legislation. The DOR’s impact is based on the assumption that the employer will track and report to the DOR the amount an employee contributes to the medical savings account.

Customer Assistance anticipates additional telephone calls, walk ins and delinquencies. One Tax Collection Tech I is needed for every 24,000 additional calls on the 751-3505 telephone number due to this legislation. One Tax Collection Tech I will be needed for every 15,000 calls on the 751-7200 (delinquency) line due to billings on denied deduction/documentation issue.

ASSUMPTION (continued)

The DOR assumes that the employer will track the amount an individual contributes to the medical savings accounts and report that amount on the W2's.

DOR assumes this legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,730 hours of contract labor at a cost of \$57,712. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs.

According to this proposal, if a taxpayer takes a deduction on the federal return, they do not qualify for the deduction on the Missouri return. **Oversight** does not envision a circumstance where a taxpayer would not take the deduction on the federal return and qualify for the deduction on the Missouri return. Therefore, for purposes of this fiscal note, Oversight will reflect the fiscal impact of this proposal as zero.

This proposal would not affect Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Loss - General Revenue</u>			
Medical Savings Account Contributions	\$0	\$0	\$0
<u>Costs - Dept. of Revenue</u>			
Programming costs	<u>(\$66,719)</u>	<u>\$0</u>	<u>\$0</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$66,719)</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	\$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 act allows a tax deduction to those who contribute to medical savings accounts. It provides that any person who is eligible for a federal tax deduction for contributions made to medical savings accounts will also be allowed a state tax deduction. Eligible persons, however, may not take both a federal and a state tax deduction for such contributions. The maximum deduction allowed is \$2,000 per individual and \$5,000 per household and there is no limit on the number of participating policies in Missouri. The Department of Revenue will administer the program.

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 Insurance
Office of Administration
Division of Budget and Planning
Department of Revenue



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