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FISCAL IMPACT REPORT

SPONSOR HBIC DATE TYPED 2/04/2004 HB 394/HBICS

SHORT TITLE Health Insurance Premium Surtax SB _____

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
(7,100.0)			Non-Recurring	General Fund
	20,000.0	24,300.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Public Regulation Commission (PRC)

SUMMARY

House Business and Industry Committee substitute for House Bill 394 imposes the health insurance premium surtax. All revenue raised from the surcharge would be directed to the general fund. The surtax would be equal to one percent of gross health insurance premiums and membership fees received from health insurance or contracts covering health risks within the state during the preceding calendar year less all return health insurance premiums.

The bill also makes a slight modification to the existing premium tax rate, which is raised from three percent to three and three-thousandths percent. This change was included to reconcile conflicting amendments to the Voters Action Tax enacted last session. It deleted sections providing exceptions to what constitute premiums subject to the tax as they were no longer applicable.

The bill amends the applicability sections to Laws 2003, Chapter 58, Section 1. This relates to the bill last session which eliminated the insurance premium tax exemption provided for all government contracts in 2003, and thereby applied the tax to premiums received by managed care organizations from the SALUD program. The proposed applicability excepts premiums received prior to March 20, 2003.

The provisions of the bill imposing the surtax are applicable on July 1, 2004 for contracts issued or renewed on or after July 1, 2004. For contracts issued or renewed before July 1, 2004, the applicability date is October 1, 2004.

The effective date of the bill is July 1, 2004.

FISCAL IMPLICATIONS

The provision changing the effective date for the premium tax owed on managed care contracts to March 20th has the effect of reducing FY04 general fund revenues from the insurance premium tax by \$7.1 million, according to the Insurance Division. The revenue decrease is non-recurring.

The health insurance premium surtax is estimated to raise \$24.3 million for the general fund in FY05. Subsequent year impacts are also shown to be \$24.3 million. However, since the value of health insurance premiums are likely to grow with prices and the number of premiums written, subsequent year revenues might be expected to grow by 5 to 10 percent.

The PRC reported to LFC staff that estimated premium insurance tax revenues attributable to health insurance premiums are \$66 million in FY04 and \$73 million in FY05. The FY04 estimate is consistent with year-to-date collections and the FY05 estimate assumes revenues from health insurance premiums will grow by 6 percent. The current tax rate is 3 percent, implying that \$24.3 million is attributable to each percent. Thus, increasing the rate by 1 percent is estimated to increase insurance premium tax revenues by \$24.3 million on a full-year basis. However since the bill will be applicable to some premiums for only the quarters of the year, the fiscal impact estimate needs to be reduced. Discussions with Insurance Division staff suggest that \$17 to \$20 million is likely to be realized in FY 05.

ADMINISTRATIVE IMPLICATIONS

The PRC currently collects and distribute this tax. They report that the proposed changes have no administrative impact.

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