F I S C A L   I M P A C T   R E P O R T

SPONSOR Snyder **DATE TYPED** 1/28/04 **HB**

SHORT TITLE Employee Health Insurance Premium Tax Credit **SB** 132

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
(7,000.0)	(28,000.0)	(28,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Response Received From
Taxation and Revenue Department

SUMMARY

Senate Bill 132 provides a tax credit against either personal income or corporate income taxes to employers with 50 or less employees who contribute to their employees' health insurance. The credit is equal to 50 percent of the value of the health insurance premiums paid by the employer for the first 5 taxable years. After 5 years, the credit is reduced to 33 percent of health insurance premiums. The credit may be taken only in the year the credit is claimed.

The bill is applicable to tax years beginning on or after January 1, 2004.

FISCAL IMPLICATIONS

TRD estimates that this bill would reduce general fund revenues by $28 million on a full year basis. The first full year is FY05. There is a revenue loss in FY04 based on the assumption that the last quarterly payments for that year would be impacted.

TRD's estimate draws from census data and assumes that 30 thousand firms would qualify for the credits. It also assumes that these firms pay health insurance premiums for 25 percent of their 140 thousand employees (i.e., the firms pay premiums for 35 thousand employees). The estimate assumes annual premiums of $4 thousand dollars, with the employer paying half, or $2 thousand. Finally, the estimate assumes that the average credit is equal to 40 percent of the employers' share of the premium--$800. Multiplying $800 by 35 thousand employees equals $28 million.

TRD notes that the estimate is rough and probably conservative. The Kaiser foundation reports the average health insurance premium is $6 thousand, and that the typical employer pays $4 thousand of this. (Note: adopting the Kaiser Foundation figures would roughly double the estimated revenue loss)

ADMINISTRATIVE IMPLICATIONS

TRD reports that the administrative implications are modest and can be handled with existing resources.

TECHNICAL ISSUES

TRD's analysis raised the following technical issues:

1. The phrase: "… fifty percent of the value of employee health insurance premiums paid by the taxpayer in the taxable year for each of the first five years in which the taxpayer pays employee health insurance premiums…" should probably be reworded to state that actual payments, rather than "fifty percent of the value of employee health insurance premiums…". The phrase is also problematic because it is uncertain how the statute would apply to taxpayers currently paying employee health insurance premiums. They could presumably qualify for the credits, or if not, they may tend to cease paying premiums for some time period in order to qualify for credits during the first five years in which they pay the credits.
2. In theory, a "taxpayer" could break itself up into several "taxpayers" under the proposal in order to claim the credit if it previously had more than fifty employees in order to qualify for the credits.
3. With respect to the corporate income tax credit, in the case of a pass-through of the credit, eligibility is measured by the employment of the taxpayer and not the employing entity. In other words, if an S corporation with five hundred employees passed the credit through to C corporation with forty employees, the C corporation could continue to take the credit. Conversely, if an S corporation had forty employees and the C corporation had 100 employees, the C corporation could not claim the credit.

OTHER SUBSTANTIVE ISSUES

TRD provided the following substantive issue:

> The measure would probably reward employers for providing health insurance benefits that would otherwise do so – hence not increase insurance coverage in some cases. The measure may also have other unusual effects, for example encourage employers to decrease retirement benefits while simultaneously increasing health benefits for the purpose of receiving the proposed credits.

BT/lg