



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

**Bill #** HB0801

**Title:** Health insurance payments as income tax credit for certain individuals

**Primary Sponsor:** MacLaren, Gary

**Status:** As Amended in House Committee

- Significant Local Gov Impact    
 Needs to be included in HB 2    
 Technical Concerns  
 Included in the Executive Budget    
 Significant Long-Term Impacts    
 Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Expenditures:</b>				
General Fund	\$62,540	\$54,588	\$55,953	\$57,352
<b>Revenue:</b>				
General Fund	(\$35,287,879)	(\$35,773,648)	(\$36,262,814)	(\$36,758,669)
<b>Net Impact-General Fund Balance:</b>	<u>(\$35,350,419)</u>	<u>(\$35,828,236)</u>	<u>(\$36,318,767)</u>	<u>(\$36,816,021)</u>

**Description of fiscal impact:** The proposed legislation would create a tax credit equal to 20% of health insurance premiums paid by a full-year resident taxpayer.

### FISCAL ANALYSIS

#### Assumptions:

- The proposed legislation would create a refundable tax credit equal to 20% of insurance premiums paid. This fiscal note uses the amount of medical insurance premiums and long-term care premiums (see technical note 1) claimed as itemized deductions as the best estimate of the amount of insurance premiums paid. In 2005, itemizing taxpayers claimed \$285,582,336 in insurance. This estimate of insurance premiums paid excludes any premiums paid by taxpayers who did not report premiums on their tax forms, such as those that do not have to file tax forms and taxpayers who claim the standard deduction. However, the estimate includes some health insurance premium payments on which the credit is not allowed, such as Medicare supplemental premiums. Despite these downfalls, the amount of itemized deductions for medical insurance premiums remains the best available estimate of un-reimbursed medical expenses paid by individuals.

2. The proposed credit in Section 1 is equal to 20% of the taxpayer's insurance premiums paid. The credit is only available for full-year residents of Montana. A computer simulation program was constructed to estimate the cost of the proposed credit based on the amount of insurance premiums claimed as itemized deductions in 2005. The total amount of credit claimed under the proposed legislation would have equaled \$53,389,224 in tax year 2005.
3. The proposed credit is non-refundable. On average, 93% of credits are used to decrease tax liability. The amount of credit used to decrease tax liability would have equaled \$49,651,978 ( $\$53,389,224 * 93\%$ ) in tax year 2005.
4. Under current law, itemizing taxpayers may take a deduction for medical insurance premiums paid and long-term care insurance premiums paid. This deduction cannot be taken on any expenses used to claim the proposed credit. Therefore, taxpayers who take the proposed credit would reduce their itemized deductions, thus increasing their tax liability. The increase in tax liability is an offset to the cost of the credit. A simulation program was run on the 2005 taxpayers to determine the amount of the offset if the proposed legislation would have been in effect during 2005. This simulation program assumed that the removal of the medical expenses used to claim the credit did not reduce the amount claimed as deductible medical expenses below the 7.5% floor. The amount of the offset was estimated to be \$15,682,129 in 2005.
5. The fiscal impact of the proposed credit, or the offset minus the credit claimed, would have been to reduce revenue by \$33,969,849 ( $\$49,651,978 - \$15,682,129$ ) in 2005. Growing this cost by the population growth estimates in HJR 2, the fiscal impact of the proposed credit is to reduce revenue by \$35,287,879 in tax year 2007 (the first year of the credit), \$35,773,648 in tax year 2008, \$36,262,814 in tax year 2009, and \$36,758,669 in tax year 2010.
6. Credits for a tax year would be claimed on tax returns filed the following spring. Credits for a tax year will reduce revenue in the next higher numbered fiscal year.
7. The Department of Revenue would require one FTE to administer this tax credit. In addition, \$2,500 in one-time costs of form creation would be needed. The total administrative expense due to this legislation would be \$62,540 in FY 2008, \$54,588 in FY 2009, \$55,953 in FY 2010, and \$57,352 in FY 2011.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
FTE	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services	\$48,642	\$48,642	\$49,858	\$51,105
Operating Expenses	\$7,998	\$5,946	\$6,095	\$6,247
Equipment	\$5,900	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u><u>\$62,540</u></u>	<u><u>\$54,588</u></u>	<u><u>\$55,953</u></u>	<u><u>\$57,352</u></u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	<u>\$62,540</u>	<u>\$54,588</u>	<u>\$55,953</u>	<u>\$57,352</u>
<b>TOTAL Funding of Exp.</b>	<u><u>\$62,540</u></u>	<u><u>\$54,588</u></u>	<u><u>\$55,953</u></u>	<u><u>\$57,352</u></u>
<b><u>Revenues:</u></b>				
General Fund (01)	<u>(\$35,287,879)</u>	<u>(\$35,773,648)</u>	<u>(\$36,262,814)</u>	<u>(\$36,758,669)</u>
<b>TOTAL Revenues</b>	<u><u>(\$35,287,879)</u></u>	<u><u>(\$35,773,648)</u></u>	<u><u>(\$36,262,814)</u></u>	<u><u>(\$36,758,669)</u></u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$35,350,419)	(\$35,828,236)	(\$36,318,767)	(\$36,816,021)

**Long-Range Impacts:**

1. This legislation would have increasing negative fiscal impact in years not covered by this fiscal note.

**Technical Notes:**

1. It is very difficult to differentiate the amount of premiums paid for health insurance versus long-term care or disability insurance, particularly when multiple types of insurance are bundled into one package with one premium. Therefore, it is assumed that the Department of Revenue would administer this credit similarly to the Uninsured Montanans credit where all types of health-related insurance qualify for the credit, including long-term care insurance.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*