



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0472	Title:	Increase tax credit for disability insurance to small business employees
Primary Sponsor:	Gillan, Kim	Status:	As Introduced

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> 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>
Revenue:				
General Fund	(\$3,857,238)	(\$7,767,491)	(\$7,873,866)	(\$4,124,390)
Net Impact-General Fund Balance	<u>(\$3,857,238)</u>	<u>(\$7,767,491)</u>	<u>(\$7,873,866)</u>	<u>(\$4,124,390)</u>

Description of fiscal impact: This legislation expands the health insurance for uninsured Montanans tax credit by increasing the maximum monthly credit from \$25 to \$100.

FISCAL ANALYSIS

Assumptions:

1. This legislation would increase the maximum monthly credit amount for the health insurance for uninsured Montanans credit from \$25 to \$100. Employers may receive the full \$100 credit if they pay 100% of the employee's premium; if the employer pays less than 100% of the premium, the credit is equal to \$100 times the percentage of the premiums paid by the employer.
2. In tax year 2005, 673 households claimed the disability credit. Many of these households are likely to be claiming a distributed share of the credit from their S-corporation or other small business corporation. Because multiple households could claim distributed shares of this credit from a single business and one household could claim distributed share from multiple businesses, there is no way of knowing the number of businesses represented by these households. This fiscal note assumes that each household represents one business. During fiscal year 2006, 92 businesses claimed the credit. Based on these numbers, this fiscal note assumes that 765 businesses claimed the credit during tax year 2005.

3. The legislation limits the credit to small employers who employ 20 or fewer employees. The Bureau of Labor Statistics reports that in 2005 there were 33,867 private establishments in Montana with fewer than twenty employees, with a total of 79,881 employees in firms of less than 10 employees and 54,558 employees in firms of 10 to 19 employees. This fiscal note assumes that all of these employees work more than 20 hours and are eligible for the credit or would be if their employer chose to pay for health insurance. However, this credit can only be claimed on 10 or fewer employees. Therefore, half of the employees in firms of 10 to 19 employees could not be used to claim the credit. Based on the Bureau of Labor Statistics data, the credit could be claimed on 107,160 employees (79,881+ (54,558/2)).
4. Under current law, the participation rate for this credit is approximately 2.6% (765 businesses that claimed the credit / 33,867 Montana small employers). However, the increased tax benefits will encourage a greater number of businesses to claim the credit. This fiscal note assumes a 10% participation rate in the credit as altered by the proposed legislation. Therefore, 10,716 employees would be used to claim the credit (10% x 107,160). Adjusting for population growth using the population growth estimates in HJR 2, the estimated number of employees used to claim the credit will be 11,132 in tax year 2007, 11,285 in tax year 2008, and 11,430 in tax year 2009. In tax year 2010, the number of eligible employees will drop to 464 because the employers who claimed the credit on 11,132 employees in tax year 2007 will no longer be eligible for the credit (the credit cannot be taken for more than 36 consecutive months).
5. This fiscal note assumes that the full \$100 can be claimed on each employee, for an increased benefit of \$75 per employee. This assumption is made because the average annual premium for employer-sponsored coverage was \$4,242 in 2005 (Kaiser Family Foundation), which is greater than the \$1,200 maximum credit. It is likely that employers can claim the full \$1,200 on each employee.
6. The proposed legislation increases the credit per employee by \$75, from \$25 to \$100. The estimated amount of additional credit claimed due to this bill is \$10,018,800 in tax year 2007 (11,132 x \$75), \$10,156,500 in tax year 2008 (11,285 x \$75), \$10,295,100 in tax year 2009 (11,430 x \$75), and \$417,600 in tax year 2010 (464 x \$75).
7. This credit is not refundable so it cannot exceed the taxpayer's tax liability. In 2005, 77% of the credit claimed was used to decrease tax liability. The estimated cost of the proposed legislation is therefore (\$7,714,476) in tax year 2007 ((10,018,800 x 77%), (\$7,820,505) in tax year 2008 ((10,156,500) x 77%), (\$7,927,227) in tax year 2009 ((10,295,100) x 77%), and (\$321,552) in tax year 2010 ((417,600) x 77%).
8. Credits will be claimed on tax returns filed after the end of each tax year. Taxpayers will claim half of the credits on returns filed in the spring and half on extension returns filed in the fall. General fund revenue will be reduced by \$3,857,238 in FY 2008 (0.50 x \$7,714,476), \$7,767,491 in FY 2009 (0.5 x \$7,714,476 + 0.5 x \$7,820,505), \$7,873,866 in FY 2010 (0.5 x \$7,820,505 + 0.5 x \$7,927,227), \$4,124,390 in FY 2010 (0.5 x \$7,927,227 + 0.5 x \$321,552).
9. The Department of Revenue does not anticipate that there will be additional administrative costs associated with implementing this legislation.

	<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>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	<u>(\$3,857,238)</u>	<u>(\$7,767,491)</u>	<u>(\$7,873,866)</u>	<u>(\$4,124,390)</u>
TOTAL Revenues	<u>(\$3,857,238)</u>	<u>(\$7,767,491)</u>	<u>(\$7,873,866)</u>	<u>(\$4,124,390)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$3,857,238)	(\$7,767,491)	(\$7,873,866)	(\$4,124,390)

Technical Notes:

1. Although originally targeted to disability insurance, the disability insurance credit can now be claimed on all types of health insurance. It is not possible for the Department of Revenue to distinguish disability insurance from other health insurance policies.

_____ <i>Sponsor's Initials</i>	_____ <i>Date</i>	_____ <i>Budget Director's Initials</i>	_____ <i>Date</i>
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