

February 29, 2012

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2717 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2717 is respectfully submitted to your committee.

HB 2717 would allow a small employer to establish a health reimbursement arrangement to contribute to the premium of an eligible employee's individually underwritten health insurance plan, whether the employee's portion of the premium is paid through a cafeteria plan or not. The bill would allow eligible employees to retain an individually underwritten health insurance plan even if they are eligible to enroll in a small employer health benefit plan. The employer would pay the employee the same amount that would have been contributed to the employer plan if the employee had elected to participate.

Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. The bill would provide a subtraction modification from federal adjusted gross income for the amount paid for health insurance premiums for individually underwritten, privately purchased health insurance plans beginning in tax year 2012.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	(\$21,900,000)	(\$21,900,000)
Expenditure	--	--	\$54,900	\$54,900
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2717 would decrease State General Fund revenues by \$21.9 million in FY 2013. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	\$ 21,000	\$ --	\$ 21,000
Income Taxes:			
Individual	3,065,000	(21,900)	3,043,100
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	--	2,200,000
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	<u>141,000</u>	<u>--</u>	<u>141,000</u>
Total Taxes	\$6,322,800	(\$ 21,900)	\$6,300,900
Other Revenues:			
Interest	\$ 7,400	\$ --	\$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	<u>51,500</u>	<u>--</u>	<u>51,500</u>
Total Other Revenues	(\$ 31,400)	\$ --	(\$ 31,400)
Total Receipts	\$6,291,400	(\$ 21,900)	\$6,269,500

To formulate this estimate, the Department of Revenue reviewed data from a 2010 survey conducted by the Kaiser Family Foundation which found that 60.0 percent of employees have health insurance through their employer, 15.0 percent have no health insurance, and the remaining 25.0 percent have private health insurance. The average total premium for private health insurance in 2010 was about \$3,600 for a single plan and about \$7,100 for a family plan. The Department estimates that the total cost of health insurance premiums in Kansas for private health insurance plans would be about \$1.8 billion in 2010. Assuming that health insurance premiums have an 8.0 percent growth rate each year through tax year 2012, the total premiums would be about \$2.1 billion in tax year 2012. Of this total amount, about 75.0 percent is estimated to already be excluded from federal adjusted gross income because the taxpayer is self-employed or the employee has a section 125 cafeteria plan. Assuming 25.0 percent of the estimated amount of privately purchased health insurance premiums will be available as a subtraction modification under this bill, and using an average tax rate of 5.0 percent, the

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estimated fiscal effect would be a reduction in State General Fund revenues of approximately \$21.9 million in FY 2013.

The Department of Revenue indicates that it would require \$54,900 from the State General Fund in FY 2013 to implement this new tax credit for the costs associated with creating forms and instructions and to modify the automated tax system. The required programming for this bill by itself (1,056 hours of in-house programming and 800 hours of implementation) would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Insurance Department indicates that the bill would have no fiscal effect on its operations. Any fiscal effect associated with HB 2717 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Zac Anshutz, Insurance Department