

*STATE OF WISCONSIN*

*REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS*

*2003 ASSEMBLY BILL 290*

[Introduced by Representatives Hahn, Hundertmark, Ainsworth, Albers, Berceau, Bies, F. Lasee, Freese, Friske, Gronemus, Hines, Jensen, Kerkman, Krawczyk, Lassa, Loeffelholz, Musser, Nass, Olsen, Owens, Pettis, Plouff, Townsend, Van Roy, Wasserman, Stone, Gielow, Huber, Suder, Shilling, J. Fitzgerald, Powers, Turner, Petrowski and LeMahieu; cosponsored by Senators Leibham, Harsdorf, Roessler, Schultz, Stepp and Wirch.]

**General Nature of Proposal**

Current state law provides an individual income tax deduction equal to 50% of the amount paid by a person for a medical care insurance policy that covers the person, his or her spouse, and the person's dependents if the person's employer pays no amount of money toward the person's medical care insurance.

The bill creates an individual income tax deduction for 100% of the amount paid by an individual for a medical care insurance policy that covers the individual, his or her spouse and the individual's dependents if the individual (other than a self-employed individual) has no employer or if the individual's employer pays no amount of money toward the individual's medical care insurance. Under the bill, as under current law, "medical care insurance" means a medical care insurance policy that covers the individual, his or her spouse, and the individual's dependents and that provides surgical, medical, hospital, major medical, or other health service coverage, and includes payments made for medical care benefits under a self-insured plan. The term does not include hospital indemnity policies or policies with ancillary benefits such as accident benefits or benefits for loss of income resulting from a total or partial inability to work because of illness, sickness, or injury.

The bill first applies to tax years beginning on January 1, 2003.

**Legality Involved**

There are no questions of legality involved.

**Fiscal Effect Upon the State and Its Subdivisions**

The Department of Revenue explains the fiscal effect of the bill as follows:

Based on a simulation on the 2001 Individual Income Tax model, adjusted to reflect current law, the expansion of the individual income tax deduction from 50% to 100% of medical care insurance premiums paid by an employee whose employer does not contribute toward the cost of the insurance reduces state tax revenues by \$1.2 million.

According to the Employee Benefits Research Institute, 7.8% of non-working adults had private non-employment-based health insurance

coverage in 2001. According to the Kaiser Family Foundation, 2001 family and single health insurance coverage premiums in Wisconsin, adjusted for the change in medical care spending from 2000-2001, were about \$7,000 and \$3,000, respectively.

This estimate assumes 7.8% of tax filers without earnings pay \$7,000 for family health insurance coverage or \$3,000 for single health insurance coverage and are eligible for the deduction of 100% of these premiums. Based on a simulation of the 2001 Individual Income Tax model, adjusted to reflect current law, the creation of an individual income tax deduction for 100% of health insurance premiums paid by non-working individuals would decrease state tax revenues by \$2.3 million.

Thus, the total revenue loss in 2001 would have been \$3.5 million (\$1.2 million + \$2.3 million). Adjusting for the change in medical care CPI from 2001 to 2003, this bill would decrease state revenues by \$3.75 million.

The Department of Revenue would incur annual costs of \$85,166 for postage, training, and salaries and fringe benefits for limited-term employees, 0.7 full-time auditing employees and 0.25 full-time programming employees. The department would also incur one-time costs of \$18,360 for employee salaries in the programming department.

#### **Public Policy Involved**

The bill is good public policy.