

**STATE OF WISCONSIN**

**REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS**

**1999 ASSEMBLY BILL 456**

[Introduced by Representatives Hahn, Kestell, Rhodes, Ladwig, Hundertmark, Reynolds, Pettis, Lassa, Kelso, Waukau, Skindrud, Freese, Sykora, Hasenohrl, Urban, Stone, Musser, Plouff, F. Lasee, Kedzie, Plale, Owens, Gunderson, Seratti, Klusman, Goetsch, Olsen, Colon, Ainsworth, Petrowski, Nass, Staskunas, Ryba, Brandemuehl, Jeskewitz, Underheim, Huebsch, Meyerhofer and Jensen; cosponsored by Senators Drzewiecki, Wirsch, Darling, Plache, Huelsman, Lazich, Schultz, Roessler and Welch.]

**General Nature of Proposal**

Under current law, a self-employed individual may deduct from income for Wisconsin income tax purposes, 100% of the amount the individual pays for medical care insurance. In addition, an individual who is an employe may deduct from income for Wisconsin income tax purposes 50% of the amount paid by the individual for a medical care insurance policy if the individual's employer pays no amount of money toward the individual's medical care insurance policy.

"Medical care insurance" means a medical care insurance policy that covers the person, his or her spouse and the person's dependents and provides surgical, medical, hospital, major medical or other health service coverage and includes payments made for medical care benefits under a self-insured plan. Medical care insurance 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 provides that an individual, other than a self-employed individual, who has no employer or an individual who is an employe may deduct 100% of the amount the individual pays for medical care insurance if the individual's employer, if the individual is employed, pays no amount of money toward the individual's medical care insurance policy.

The bill would first apply to taxable years beginning on January 1, 2000.

**Legality Involved**

There are no questions of legality involved.

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

The Department of Revenue estimates the fiscal effect of this bill as follows:

Under current law, self-employed persons may deduct 100% of their health insurance premiums, and persons who are employed by another person may deduct 50% of their premiums if their employer does not contribute to their health insurance coverage. This bill would increase the deduction to 100% of premiums for employed persons whose employer does not contribute to their health insurance. It would also create a deduction for 100% of health insurance premiums for persons who are not employed and who are not eligible for the deduction for the self-employed. Both changes would take effect in tax year 2000.

Simulations on the 1997 Wisconsin individual income tax model, adjusted to reflect changes in tax law, indicate that this bill would reduce individual income tax revenues by \$4.1 million in FY01.

Doubling the existing deduction for persons whose employer does not contribute to their health insurance would reduce revenues by \$0.9 million.

Creating a deduction for persons who are not employed and who are not eligible for the deduction for the self-employed would reduce revenues by \$3.2 million. The simulation assumed that 9.5% of tax filers without earnings would be eligible for the deduction, based on information from the Employee Benefits Research Institute that 9.5% of all adult nonworkers are covered by private, nonemployer health plans. Further, annual premiums were assumed to be \$6,000 for family plans and \$2,200 for single coverage, based on information in the Group Health Insurance Index for 1999 compiled by the Office of the Commissioner of Insurance.

The Department of Revenue would incur additional costs of \$40,800 for audit review of the new deduction. There would also be one-time costs of \$9,400 for supporting expenses.

#### **Public Policy Involved**

This bill is good public policy.

1/26/00

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