

FISCAL ESTIMATE FORM

2001 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 01-1454/1
INTRODUCTION # AB 282
Admin. Rule #

Subject
Create Individual Income Tax Deduction for Certain Medical Expenses

Fiscal Effect

State: No State Fiscal Effect
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

<input type="checkbox"/> Increase Existing Appropriation	<input type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be Possible to Absorb Within Agency's Budget <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<input type="checkbox"/> Decrease Existing Appropriation	<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Create New Appropriation	<input type="checkbox"/> Decrease Costs	

Local: No Local Government Costs

1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Governmental Units Affected: <input type="checkbox"/> Towns <input type="checkbox"/> Villages <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others _____ <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	4. <input type="checkbox"/> Decrease Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

Fund Sources Affected <input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEG-S	Affected Ch. 20 Appropriations 20.566 (1)(a)
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Assumptions Used in Arriving at Fiscal Estimate:

This bill creates an individual income tax deduction for 100% of the amount paid for a medical care insurance policy that covers the filer, spouse and dependents if the filer is not eligible to claim either of the existing deductions for medical care insurance that are available under current law. The bill also creates deductions for 100% of the amount paid for medical and dental expenses and for 100% of the amount paid for prescription drugs, nonprescription drugs or drug products.

Currently, 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. All tax filers may receive a Wisconsin itemized deduction credit equal to 5% of their eligible medical expenses only to the extent that the total amount of medical expenses not compensated for by insurance exceeds 7.5% of the filer's federal adjusted gross income and to the extent that total itemized expenses exceed the standard deduction. Eligible medical expenses include medical and dental expenses, premiums paid on health insurance policies, costs of prescription drugs and medical equipment, and the cost of transportation, meals and lodging for needed medical care. The credit is not allowed for amounts claimed under the existing deductions for the self-employed or for persons whose employer does not contribute toward the cost of their health insurance premiums.

This bill would reduce individual income tax revenues by a total of \$338 million. This estimate assumes that medical expenses would be eliminated from the calculation of the state's itemized deduction credit, and was estimated for each of the following components:

1. A simulation on the 1999 Wisconsin Individual Income Tax Model, adjusted to reflect current law, indicates that creating a 100% deduction for persons who are not eligible for the deductions for the self-

(continued on page two)

Long-Range Fiscal Implications:

Agency/Prepared by: (Name & Phone No.) Wisconsin Department of Revenue Meredith Krejny, (608) 261-8984	Authorized Signature/Telephone No. Yeang-Eng Braun (608) 266-2700 	Date 3/14/01
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employed or for persons whose employer does not contribute to their health insurance coverage would reduce revenues by \$104 million.

The estimate assumed that, of filers with earnings, 55% of single filers and 75% of married and head of household filers would be eligible for the deduction. These percentages are based on U.S. Bureau of Labor Statistics information compiled by the Employee Benefits Research Institute (EBRI) that 55% of all adult workers in single coverage plans and 75% of all adult workers in family plans are required to make contributions toward the cost of their premiums. Based on the information compiled by EBRI, annual contributions were assumed to be \$450 for single coverage plans and \$1,850 for family plans.

The estimate also assumed that 9.1% of filers without earnings would be eligible for the deduction based on information from EBRI that 9.1% of all adult nonworkers are covered by private, nonemployer health plans. Annual premiums were assumed to be \$3,000 for single coverage and \$8,000 for family plans based on information in the Group Health Insurance Index for July 1, 2000, compiled by the Wisconsin Office of the Commissioner of Insurance.

2. According to information from the U.S. Health Care Financing Administration (HCFA) and compiled by the U.S. Bureau of the Census, out-of-pocket payments by consumers for medical and dental expenses totaled \$157 billion in 1998. Adjusting for inflation by the percent change in medical prices from 1998 to 2001 from Standard and Poor's DRI January 2001 forecast (8.7%) and assuming that Wisconsin's share of these expenditures is equal to its share of national personal income, or 1.85%, consumer out-of-pocket costs for medical and dental expenses in the state are estimated to be \$2.9 billion in tax year 2001 (\$157 billion x 1.087 x 0.0185). The estimate also assumes a 6.14% effective marginal tax rate and that all consumers would deduct these expenses under the proposed law. Thus, creating a full deduction for medical and dental expenses would reduce revenues by \$178 million (\$2.9 billion x 0.0614).
3. According to the HCFA data, consumers' out-of-pocket costs for drugs and other medical nondurables totaled \$55.4 billion in 1998. Using the same adjustment factors as above, Wisconsin's share of these expenditures is estimated to be \$1.1 billion in tax year 2001 (\$55.4 billion x 1.087 x 0.0185). Thus, allowing a deduction for 100% of the amount paid for prescription drugs, nonprescription drugs or drug products would reduce revenues by \$68 million (\$1.1 billion x 0.0614).
4. The total fiscal effect of this bill assumes that medical expenses would be eliminated from the calculation of the state's itemized deduction credit, since these expenses would be deductible from income. A simulation on the 1999 Individual Income Tax Model (adjusted to reflect current law) indicates that eliminating medical expenses from the calculation of the credit will result in a revenue gain of \$12 million.

The following table summarizes the components of the bill's fiscal effect:

Deduction	Change in Revenue*
Health Insurance Premiums	(104,000,000)
Medical and Dental Expenses	(178,000,000)
Drugs and Other Medical Nondurables	(68,000,000)
Eliminate Medical Expenses for Itemized Credit	12,000,000
Total Fiscal Effect	(338,000,000)

* Amounts in parentheses represent revenue losses.

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The Department would incur one-time administrative costs of \$70,600 in FY02 and \$84,600 in FY03 for audit activity, data collection, computer equipment and supporting expenses, as well as on-going costs of \$559,800 for additional data collection, adjustment activity, audit correspondence, and supporting expenses. The bill does not provide funding for these costs.

YKB
3/14/01

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

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I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

+\$70,600 GPR-Exp in FY 02; +\$84,600 GPR-Exp in FY 03.

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringe (FTE Position Changes)	\$ 478,100 (8.8 FTE)	\$ - (- FTE)
State Operations-Other Costs	81,700	-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$ 559,800	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 559,800	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev.	Decreased Rev.
GPR Taxes	\$	\$ - 338 million
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ - 338 million

NET ANNUALIZED FISCAL IMPACT

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ +559,800	\$
NET CHANGE IN REVENUES	\$ -338 million	\$

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue Meredith Krejny, (608) 261-8984	Yeang-Eng Braun <i>Yeang Eng Braun</i> (608) 266-2700	3/14/01