

*STATE OF WISCONSIN**REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS**2005 ASSEMBLY BILL 6*

[Introduced by Representatives Hahn, Hundertmark, Wasserman, Suder, Gronemus, Kerkman, Ainsworth, J. Fitzgerald, Friske, Kaufert, Rhoades, Musser, Albers, F. Lasee, Petrowski, Nass, Krawczyk, Nischke, Van Roy, Freese, Lothian, Wood, McCormick, Bies, Gielow, Towns, Jensen, LeMahieu, Jeskewitz, Hines, Townsend, Ott, Vos, Stone, Owens, Davis, Moulton, Gunderson, Nelson and Gard; cosponsored by Senators Leibham, Roessler, Olsen, Erpenbach, Harsdorf, Kanavas, Lazich, A. Lasee, Darling, Grothman and Lassa.]

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. In addition, state law generally provides for a 100% deduction for such amounts paid by a self-employed person.

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, 2005.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

The Department of Revenue explained the fiscal effect of the bill in its original estimate as follows:

This bill would expand the individual income tax deduction for medical care insurance premiums paid by an employee whose employer does not contribute toward the cost of the insurance from 50% to 100% of the premiums. The bill also would create an individual income tax deduction

for 100% of medical care insurance premiums paid by an individual who is not self-employed and has no employer.

Based on a simulation on the 2003 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, 8.3% of non-working adults had private non-employment-based health insurance coverage in 2003. According to the Kaiser Family Foundation, the average 2002 family and single health insurance coverage premiums were \$8,717 and \$3,500 respectively. Adjusting for the change in health insurance costs from 2002 to 2003 as estimated by the U.S. Department of Labor, Bureau of Labor Statistics, 2003 health insurance premiums for family and single coverage are estimated to be \$9,600 and \$4,000, respectively.

It is assumed that 8.3% of tax filers without earnings pay \$9,600 for family health insurance coverage or \$4,000 for single health insurance coverage and are eligible for the deduction of 100% of these premiums. Based on a simulation on the 2003 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 \$3.9 million.

Thus, the total revenue loss in 2003 would have been \$5.1 million (\$1.2 million + \$3.9 million). Adjusting for the change in health insurance costs from 2003 to 2005, as estimated by the U.S. Department of Labor, Bureau of Labor Statistics and Global Insight, this bill would decrease state revenues by \$5.9 million in FY06.

On February 23, 2005, the Department of Revenue issued an updated estimate that explained the fiscal effect of the bill as follows:

This bill would expand the individual income tax deduction for medical care insurance premiums paid by an employee whose employer does not contribute toward the cost of the insurance from 50% to 100% of the premiums. The bill also would create an individual income tax deduction for 100% of medical care insurance premiums paid by an individual who is not self-employed and has no employer.

Based on a simulation on the 2003 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 affects approximately 10,600 tax filers and reduces state tax revenues by \$1.2 million.

According to the Employee Benefits Research Institute, 8.3% of non-elderly, non-working adults had private non-employment-based health insurance coverage in 2003. According to the Kaiser Family Foundation, the average 2002 family and single health insurance coverage premiums were \$8,717 and \$3,500 respectively. Adjusting for the change in health insurance costs from 2002 to 2003 as estimated by the U.S. Department of Labor, Bureau of Labor Statistics, 2003 health insurance premiums for family and single coverage are estimated to be \$9,600 and \$4,000, respectively.

According to data for 2003 from the U.S. Census Bureau, 69% of Wisconsin individuals over 65 had private insurance either through an employment-based health insurance plan or a direct purchase plan. Based on a survey of retiree health plans by the Kaiser Family Foundation, 2003 health insurance premiums for individuals over 65 are estimated to be \$2,200 for individual coverage and \$4,400 for family coverage.

It is assumed that 1) 8.3% of non-elderly tax filers without earnings pay \$9,600 for family health insurance coverage or \$4,000 for single health insurance coverage and are eligible for the deduction of 100% of these premiums and 2) 69% of elderly tax filers without earnings pay \$4,400 for family health insurance or \$2,200 for single health coverage and are eligible for the deduction of 100% of these payments. Based on a simulation on the 2003 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 affect approximately 65,200 tax filers and would decrease state tax revenues by \$13.1 million. The average benefit for each tax filer is \$220.

Thus, the total revenue loss in 2003 would have been \$14.3 million (\$1.2 million + \$13.1 million). Adjusting for the change in health insurance costs from 2003 to 2005, as estimated by the U.S. Department of Labor, Bureau of Labor Statistics and Global Insight, this bill would decrease state revenues by \$16.6 million in FY06.

Public Policy Involved

This bill is good public policy.