

Fiscal Estimate Narratives

DOR 2/23/2005

LRB Number	05-0424/1	Introduction Number	SB-37	Estimate Type	Updated
Subject					
Individual income tax deduction for amounts spent on medical insurance premiums					

Assumptions Used in Arriving at Fiscal Estimate

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 approximately \$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.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
Individual income tax deduction for amounts spent on medical insurance premiums			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	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	\$	\$-16,600,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-16,600,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-16,600,000	\$
Agency/Prepared By		Authorized Signature	Date
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