

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Jeffrey M. Frederick

3. **Committee** House Finance

4. **Title** Income Tax: Tax Credit for Health Insurance  
Premiums Paid by Small  
Business Employers

2. **Bill Number** HB 479

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would provide a tax credit against the corporate or individual income tax to employers who pay at least one-half of the annual health insurance premium per employee. The credits would be available to employers with 50 or fewer full-time employees. The amount of the credit would be equal to the lesser of \$500 or the amount paid per employee. The total amount of credits available to each employer annually would be limited to \$25,000, and any tax credit not used for the taxable year could be carried over for the next three years or until the full amount of the credit was used, whichever is sooner.

This bill would be effective for taxable years beginning on or after January 1, 2007.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7. **Budget amendment necessary:** No.

### 8. **Fiscal implications:**

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

This bill will result in a general fund revenue loss of unknown magnitude, but expected to be substantial. Based on data from the Medical Expenditure Panel Survey – 2003 Employee-Sponsored Health Insurance Data, there are 828,246 employees of Virginia

businesses with fewer than 50 employees. In 2003 there were 120,275 such businesses, giving an average of 6.88 employees per business.

The survey found that 47.7 percent of these businesses offered health insurance to their employees, and that 60.1 percent of those firms have at least one plan that required no contribution from the employee for single coverage. Combining these numbers and proportions, the proposed credit would result in a \$118.7 million revenue loss for 2003. This estimate may be conservative, since this bill requires only that the employer cover at least one-half the health insurance premium (available data is limited to those covering 100 percent), and because the proportion of firms offering health insurance coverage appears to be increasing over time. The tax credit provides an incentive for small businesses to offer health insurance not accounted for in the estimate. If, however, businesses lack sufficient liability to claim the credit, the impact would be reduced. Since health insurance premiums are deductible on the federal return, most businesses would be likely to claim the federal deduction instead of the Virginia credit.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary: Yes.**

Returns cannot be filed electronically if documents must be attached. As such, the following amendment is proposed.

Page 1, Line 24, after "shall"

Strike: attach to the income tax return

Insert: obtain

**11. Other comments:**

Proposal

This bill would create an income tax credits for small business employers who pay for at least one-half of the total annual health insurance premiums for each employee. The amount of this credit would be equal to the lesser of the amount paid by the employer for premiums during the taxable year or \$500 per employee.

The proposed credit would only be available to employers with businesses employing fifty or fewer employees and would only be available to the extent that the employer did not claim a deduction for federal income tax purposes for the amount of the premium costs. The total amount of these credits allowed to each employer would not be allowed to exceed \$25,000. If an employer were not able to use a credit during the taxable year, he would be allowed to carry over the credit for the next three taxable years or until the full credit was used, whichever was sooner.

In order to claim these credits, this bill would require employers to attach proof of payment of the premium costs to his income tax return.

This bill would be effective for taxable years beginning on or after January 1, 2007.

cc : Secretary of Finance

Date: 01/26/2006 CHC  
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