# DEPARTMENT OF TAXATION
# 2008 Fiscal Impact Statement

**REVISED**
**1/14/08**

1. **Patron** David A. Nutter

2. **Bill Number** HB 986

   **House of Origin:**
   X **Introduced**
   ____ **Substitute**
   ____ **Engrossed**

   **Second House:**
   ____ **In Committee**
   ____ **Substitute**
   ____ **Enrolled**

3. **Committee** House Finance

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

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 premiums per employee. The credit 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 the credit available to each employer annually would be limited to $25,000; and any tax credit not used for the current taxable year could be carried over for the next three taxable 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, 2008.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7. **Budget amendment necessary:** Yes. (See Line 8.)
   Page 1, Revenue Estimates

8. **Fiscal implications:**

   Administrative Costs

   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.

Revenue Impact

This bill would result in a general fund revenue loss of an unknown magnitude; but it could range from $99 million to $170 million. This disparity is due to the effectiveness of the credit. The $99 million estimate is based on the number of employees participating in employer insurance plans today. The $170 million estimate assumes that the credit provides an incentive for more employees to enroll in employer health insurance plans.

Based on data from the Medical Expenditure Panel Survey (2005), there are 838,297 employees of Virginia businesses with fewer than 50 employees. In 2005 there were 121,151 such businesses, giving an average of 6.92 employees per business. The survey found that 43.2 percent of these businesses offered health insurance to their employees, and that 54.7 percent of those firms have at least one plan that requires no contribution from the employee. Using these figures, the minimum negative revenue impact of this credit would be $99 million per year.

As this bill provides additional incentive for small businesses to fund employee health insurance, however, the actual revenue loss would most likely be higher. The survey indicates that 64 percent of these employees work in a firm where some type of health insurance plan is provided. Out of those employees, 63.3 percent are enrolled in the health insurance plan. If the employers of these firms claim a credit for each employee, the maximum loss from the bill would be $170 million. Thus, the estimated annual revenue loss range is between $99 million and $170 million.

While corporate income may vary greatly on an annual basis and businesses may not always be able to claim the entire credit, the carry-over period could allow most businesses to eventually claim their entire credit. Thus the estimates above should be considered an average revenue loss per fiscal year.

To implement this credit, a reduction of an equal amount of general fund support from other areas in the introduced budget would be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant general fund support.

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

Department of Taxation

**10. Technical amendment necessary:** No.

**11. Other comments:**

Proposal

This bill would create an individual and corporate income tax credit 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 50 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 of 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. If a taxpayer wishes to file electronically, however, no documents may be attached to the return. The guidelines authorized by this bill would allow TAX to develop alternative procedures to verify eligibility for the proposed credit.

This bill would be effective for taxable years beginning on or after January 1, 2008.

Similar Legislation

**House Bill 59** is similar to this bill, but it would be effective for taxable years beginning on or after January 1, 2009.

**House Bill 1191** would provide a refundable tax credit against the corporate or individual income tax to small business employers who pay at least one-half of the annual long-term care insurance premiums per employee.

cc : Secretary of Finance

Date: 1/14/2008 AMS
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