DEPARTMENT OF TAXATION
2009 Fiscal Impact Statement

1. Patron Stephen H. Martin

2. Bill Number SB 1443

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

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

3. Committee Senate Finance

4. Title Income Tax: Health Insurance Premiums Tax Credit

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, 2009.

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

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2008-09	$0	GF
2009-10	($108 - $161 million)	GF
2010-11	($108 - $161 million)	GF
2011-12	($108 - $161 million)	GF
2012-13	($108 - $161 million)	GF
2013-14	($108 - $161 million)	GF
2014-15	($108 - $161 million)	GF

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

8. Fiscal implications:

Administrative Impact

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 negative revenue impact of between $108 million and $161 million per year. The wide range in the estimate for this bill is due to the anticipated effectiveness of the credit. The estimate of $108 million is based upon the number of employees participating in employer insurance plans today. The $161 million estimate assumes the credit will provide an incentive for more employers to offer and at least partially pay for health insurance plans.

Based upon data from the Medical Expenditure Panel Survey (2006), there are 821,238 employees of Virginia businesses with fewer than 50 employees. In 2006 there were 120,625 such businesses, giving an average of 6.81 employees per business. The survey found that 48.1 percent of these businesses offered health insurance to their employees, and that 54.8 percent of those firms have at least one plan that requires no contribution from the employee. Using this data, the minimum negative revenue impact of this credit would be $108 million per year.

Because this bill provides additional incentive for small businesses to fund employee health insurance, the actual revenue loss would most likely be higher. The survey indicates that 64.8 percent of these employees work in a firm where some type of health insurance plan is provided. Out of those employees, 60.4 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 $161 million. Thus, the estimated annual revenue loss range is between $108 million and $161 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.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Other States

According to a report issued by the National Conference of State Legislatures that was issued in December of 2008, there are at least four other states that offer a similar tax credit.

Kansas
A tax credit is allowed to corporate employers for amounts paid during the tax year under the small employer health benefit plan. For employers that establish a small employer health benefit plan or make contributions to a health savings account of an eligible employee after December 31, 2004, the allowable credit is as follows: (1) $70 per eligible employee for the first 12 months; (2) $50 per eligible employee for the next 12 months, and; (3) $35 per eligible employee for the following 12 months.

Montana
An eligible employer that pays for group health insurance may claim a credit of not more than $100 each month for each employee and $100 each month for each employee's spouse (if the employer covers the spouse), if the average age of the group is 45 years of age or older; and not more than $40 each month for each covered dependent, not to exceed two dependents of an employee in addition to the employee's spouse. An employer may not claim a credit in excess of 50% of the total premiums paid by the employer for the qualifying small group, for premiums paid from a medical care savings account, or for premiums for which a deduction is claimed in computing corporation license or personal income tax. If an eligible employer's tax credit exceeds the employer's corporation license or personal income tax liability, the excess amount must be refunded.

North Carolina
Small businesses with fewer than 26 employees are eligible to claim a small business health insurance credit against North Carolina corporate or personal income tax or corporation franchise tax if they provide health benefits to all eligible employees. For purposes of the credit, a taxpayer provides health benefits if it pays at least 50% of the premiums for health care coverage. The credit may only be claimed for health insurance premiums paid for eligible employees whose total annual wages received from the business do not exceed $40,000. The credit is equal to the lesser of $250 or the costs incurred.

Oklahoma
Eligible employers are entitled to a tax credit for premiums paid on behalf of eligible employees who elect to participate in a state-certified basic health benefits plan. The credit is $ 15 per month for each eligible employee and is allowed for two consecutive years. If the taxpayer's tax liability is less than the credit, the excess credit will be refunded. Eligible employers include corporations, partnerships or proprietorships that (1) have done business in the state for at least one year; (2) have not, within the 15 preceding months of offering to purchase the state-certified plan, provided group health insurance to at least 75% of its employees who are residents of the state and work an average of 24 hours or more a week for the employer; (3) offer the state-certified basic health benefits plan to all eligible employees; and (4) pay 50% or more of the full cost of the premium attributable to the employee for which the credit is claimed.

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, 2009.

cc : Secretary of Finance

Date: 1/24/2009 TLG
SB1443F161