

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: Senate Bill 364 (First Edition)

SHORT TITLE: Small Business Health Insurance Credit.

SPONSOR(S): Senator Dalton

	FISCAL IMPACT (\$MIL.)				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES:					
State General Fund	-203.5	-144.1	-144.7	-146.8	-149.5
EXPENDITURES:					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: The income and franchise taxes are administered by the Department of Revenue. The enactment of the bill is not expected to affect the budget requirements of the Department.					
EFFECTIVE DATE: Health Insurance Tax Credit: Tax years beginning on or after January 1, 2005. Other changes: When the bill becomes law.					

BILL SUMMARY:

Health Insurance Tax Credit. Allows an employer who provides health benefits for all employees to take a state income or franchise tax credit for its costs in providing the benefits. To be eligible, the employer must pay at least 50% of the premiums for health coverage that meets or exceeds the minimum provisions of a basic health care plan of coverage recommended by the Small Employer Carrier Committee. In addition, the employer must have no more than 15 employees.

The credit is equal to 100% of the employer's cost of providing the benefits, up to a maximum of \$700 for each employee under individual coverage and \$1,300 for each employee who is covered

by a policy that covers the employee and at least one other family member. The credit is limited to 50% of tax liability, with a five-year carryforward.

Other Changes. Reorganizes sunset provisions of business and energy tax credits and makes technical change.

ASSUMPTIONS AND METHODOLOGY:

Health Insurance Tax Credit. The first step in the analysis was to review the detailed employer health insurance data from the 2001 Medical Expenditure Panel Survey from the Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services. The data included a tabulation of the number of firms in North Carolina who offered health coverage for employees by size of firm.

The statistical breakdown by size of firm included a category of 1-10 employees and one for 11-25 employees. To determine the number of employees in firms of 15 employees or less, the 11-25 employee group was divided into an 11-15 group and a 16-25 bracket. The estimate for the 11-15 reporting bracket was based on the assumption that 75% of the 11-25 category would fall into the 11-15 group. This was a cautious assumption based on the lack of detailed distribution data.

The survey data indicated that 31% of employees of small employers are presently covered by employer-sponsored plans. In addition, the data indicated that for 2001 the average employer's costs ranged from \$3,024-\$4,971 per year, depending on the number of family members covered. Data for 1998-2002 from the Department of Insurance indicates that the average annual cost is rising at double-digit rates. Since the credit limit will be far less than 100% of a typical employer's cost, the average cost numbers do not enter the calculation. Instead, the determination is based on a head count of the number of employees covered.

There is no way to make a reliable prediction of the proportion of uncovered employees who would receive coverage as a result of the tax credits. For the purpose of this analysis, it was assumed that 25% of the uncovered employees would begin to be covered.

The credit is limited to 50% of the taxpayer's income tax liability for the tax year. In this analysis, we assume a credit utilization rate of 55%.

The credit cost was calculated using the 2001 survey data. The number was used also for 2005 under the assumption that the sharp rise in the employer's cost for health insurance coverage would reduce the proportion of employers who choose to provide coverage. Thus, the number of covered workers would not go up even though the number of establishments rises over time.

For years following the 2005 tax year, annual growth based on projected nonagricultural employment in North Carolina was used. This estimate was made by the nationally recognized forecasting firm, Economy.com (January 2005).

The tax year costs were then split into fiscal years using the assumption that 45% of the cost of a credit would occur during the January-June period and the remainder during the second half of the tax year. These assumptions reflect the fact that taxpayers can avoid an underpayment penalty for estimated taxes by sending in at least 90% of the annual liability during the tax year. Thus, one half of the 90% would come in with the April and June estimated payments.

For the 2005-06 fiscal year, the cost is substantially higher than the annualized cost due to the January 1, 2005 effective date of the bill. This date means that during the 2005-06 state fiscal year, taxpayers will receive 100% of the 2005 tax year credits plus 45% of the 2006 tax year credits.

Other Changes. The portion of the bills that reorganizes various tax credits and makes a technical change has no revenue or expenditure impact.

SOURCES OF DATA: A review of similar small business health insurance incentives in a handful of other states did not provide any useful information due to the differences in types of incentives.

TECHNICAL CONSIDERATIONS: None

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