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Sam Brownback, Governor

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REVISED

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Revised Fiscal Note for HB 2369 by House Committee on Taxation

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2369 is respectfully submitted to your committee.

HB 2369 would allow a small employer to establish a health reimbursement arrangement to contribute to the premium of an eligible employee's individually underwritten health insurance plan, whether the employee's portion of the premium is paid through a cafeteria plan or not. The bill would allow eligible employees to retain an individually underwritten health insurance plan even if they are eligible to enroll in a small employer health benefit plan. The employer would pay the employee the same amount that would have been contributed to the employer plan if the employee had elected to participate.

Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. The bill would provide a subtraction modification from federal adjusted gross income for the amount paid for health insurance premiums for individually underwritten, privately purchased health insurance plans beginning in tax year 2013.

Since the original fiscal effect statement was issued, the Department of Revenue has revised its methodology for estimating the fiscal effect of this bill. Additionally, the fiscal effect of the bill for future years was not available at the time the fiscal note was originally issued and is now included.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	($19,600,000)	($19,600,000)
Expenditure	--	--	$58,400	$58,400
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2369 would decrease State General Fund revenues by $19.6 million in FY 2014. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	$ 39,000	$ --	$ 39,000
Income Taxes:			
Individual	2,385,000	(19,600)	2,365,400
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	151,500	--	151,500
Total Taxes	$5,555,500	($ 19,600)	$5,535,900
Other Revenues:			
Interest	$ 9,700	$ --	$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	55,000	--	55,000
Total Other Revenues	($ 91,200)	$ --	($ 91,200)
Total Receipts	$5,464,300	($ 19,600)	$5,444,700

The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2015	FY 2016	FY 2017	FY 2018
State General Fund	($31,500,000)	($33,100,000)	($34,700,000)	($36,500,000)

To formulate these estimates, the Department of Revenue reviewed data from the Kaiser Family Foundation which estimates that approximately 150,700 Kansans currently purchase private health insurance. Assuming the annual premium in 2013 is about $3,250 per person, it is estimated that overall insurance premium costs for these taxpayers would be approximately $489.8 million. Assuming an average tax rate of 4.0 percent, the estimated fiscal effect would be a reduction in State General Fund revenues of approximately $19.6 million in FY 2014. It is also estimated that approximately 356,100 Kansans are currently uninsured. Beginning in tax year 2014, it is estimated that 25.0 percent of these individuals will purchase private health insurance under the requirements of the Patient Protection and Affordable Care Act, which was passed by Congress in 2010. The reduction in State General Fund revenues is estimated to increase to $31.5 million in FY 2015, with $19.6 million attributed to taxpayers who currently purchase private health insurance and $11.9 million attributed to uninsured taxpayers who will now be required to purchase private health insurance.

The Department of Revenue indicates that it would require $58,400 from the State General Fund in FY 2014 to implement this new tax credit for the costs associated with creating forms and instructions and to modify the automated tax system. The required programming for this bill by itself (1,056 hours of in-house programming and 920 hours of implementation) would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Insurance Department indicates that the bill would have no fiscal effect on its operations. Any fiscal effect associated with HB 2369 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Zac Anshutz, Insurance Department