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**FISCAL IMPACT STATEMENT**

**LS 7713**

**BILL NUMBER:** SB 459

**NOTE PREPARED:** Mar 31, 2005

**BILL AMENDED:** Mar 29, 2005

**SUBJECT:** Health Benefit Plan Credit and College Savings Deduction.

**FIRST AUTHOR:** Sen. Dillon

**FIRST SPONSOR:** Rep. Leonard

**BILL STATUS:** As Passed House

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Health Benefit Plan Credit:* The bill allows an employer with at least one full-time employee to take a tax credit related to making a health benefit plan available to the employer's employees.

*Deduction for Student Loans:* The bill provides individuals a deduction from Adjusted Gross Income for certain student loan obligations.

*Medicaid Provider Tax Credit:* The bill provides an Adjusted Gross Income Tax Credit to certain physicians who provide primary care to medicaid recipients.

*College Savings Provisions:* The bill reduces the number of appointed directors of the Education Savings Authority from five to three. The bill provides that up to \$2,000 in contributions to a Family College Savings account may be deducted from Adjusted Gross Income. The bill codifies an expired noncode provision that requires the Treasurer of State and the Board for Depositories to provide clerical support, office space and services, and financial support to the Education Savings Authority.

*Smoking on Public Mass Transit:* The bill makes smoking in a public means of mass transportation or near a public mass transportation terminal or waiting area a Class B infraction.

**Effective Date:** (Amended) January 1, 2005 (retroactive); July 1, 2005; January 1, 2006.

**Summary of Net State Impact:** (Revised) The estimated net impact of the bill is summarized in the table below:

Revenue Base (millions)	FY 2006	FY 2007	FY 2008	FY 2009
Adjusted Gross Income Tax				
College Savings Deduction	0	(0.27)	(0.28)	(0.29)
Employer Health Benefit Plan Tax Credit	(2.2)	(2.2)	(1.9)	0
Employee Health Benefit Plan Premium Exclusion	(6.7)	(13.4)	(13.4)	(13.4)
Student Loan Deduction	(6.3)	(6.4)	(6.5)	(6.5)
Medicaid Provider Tax Credit	0	(0.14)	(0.14)	(0.14)
Insurance Premiums Tax	2.2	4.4	4.4	4.4
Net Revenue Gain (Loss)	(15.2)	(18.0)	(17.8)	(15.9)

**Explanation of State Expenditures:** (Revised) *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the deduction and the tax credits proposed in this bill. The DOR's current level of resources should be sufficient to implement these changes.

*Indiana Education Savings Authority:* The bill reduces the number of appointed members of the Indiana Education Savings Authority from five to three. Under current statute, appointed members are not entitled to the minimum salary per diem but are entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Thus, the reduction in membership would only affect costs relating to expense reimbursement of two members.

*State Board for Depositories:* The bill requires the Treasurer of State and the State Board for Depositories to cooperate and provide administrative support to the Indiana Education Savings Authority. Currently, the State Board for Depositories provides administrative support to the Authority. This support involves compensation for 1.5 employees (the State Board and the Authority share an office manager), office space expenses, and other administrative expenses. Thus, this requirement could potentially have some impact on the Treasurer of State. However, the administrative expenses of the Authority presumably could be absorbed by the State Board for Depositories and the Treasurer of State given their existing budgets and resources. (A noncode provision that expired July 1, 2000, required the Treasurer of State, the Board for Depositories, the Indiana Commission for Higher Education, and the State Student Assistance Commission to cooperate and provide administrative support to the Authority.)

(Revised) *Office of Medicaid Policy and Planning (OMPP):* Under the bill, the OMPP would have to annually certify physicians for purposes of eligibility for the Medicaid provider tax credit. Since the number of eligible physicians may be relatively small, OMPP's current level of resources should be sufficient to implement the certification process.

**Explanation of State Revenues:** *Health Benefit Plan Credit:* A health benefit credit equal to \$50 per enrolled worker and capped at \$2,500 for employers (with at least one worker) providing health benefits to their employees for the first time is estimated to decrease: (1) Adjusted Gross Income (AGI) Tax and Financial Institutions Tax liabilities for businesses during the two years of the tax credit and in following years as the carryforward is used; and (2) AGI Tax of employees covered by these health plans as they pay health plan premiums with "pret-tax" income (income excluded from Federal Gross Income and from Indiana AGI.)

The bill could also increase Insurance Premiums Tax revenues as more insurance policies are underwritten in the state. The increase in Insurance Premium Tax revenues may partially mitigate the decrease in AGI tax liabilities, the extent to which will be determined by the amount of existing Insurance Premium Tax credits that health insurance companies currently take and carry forward.

The following assumptions are used to calculate the estimates: (1) All businesses currently not offering health benefits offer them and take the credit; (2) 10% of a business's employees participate in the health benefit plan.

**Adjusted Gross Income Tax Impact:** The bill establishes a credit for employers with at least one worker that offer at least one health benefit plan to employees for the first time. The credit is equal to the lesser of \$2,500 or \$50 for each enrolled employee and can be taken for two years. An employer claiming the credit must offer health insurance for at least 24 consecutive months after the taxable year in which the health insurance plan is initially offered. The bill contains a "claw-back" provision where employers who fail to meet this requirement have to pay back the tax credit. The credit is nonrefundable, but unused credit may be carried forward to subsequent years. The tax credit may not be carried back to previous years. The credit is available beginning January 1, 2006.

The impact of this bill is a function of the number of employers with at least one worker currently not providing a health benefit plan to employees that choose to offer a health benefit plan and take the tax credit.

Recent survey results suggest that in 2003 there were approximately 53,480 Indiana businesses with at least one employee that did not offer a health benefit plan. Of these businesses, a number of them would have sufficient tax liability to take the full credit in a given year. *The employer tax credit is estimated to decrease the income tax liabilities of businesses by \$2.2 M in FY 2006 and FY 2007.* The carryforward for each year is estimated to total about \$940,000. The carryforward could potentially be used in FY 2008.

The bill requires that the health benefit plan established by employers satisfy the requirements of Section 125 of the IRS Code. This section of the IRS Code allows employees (and employers) to pay their share of insurance premiums with pre-tax dollars which reduces the employee's taxable income and FICA, and the employer's FICA and unemployment insurance tax payments. The employee's use of pretax dollars to pay for health insurance would decrease state individual income tax revenues. *It is estimated that the impact of the exclusion of premium payments from AGI for employees could potentially total about \$6.7 M in FY 2006 (the impact of about one-half of the tax year 2006 exclusion, and \$13.4 M annually thereafter.*

The estimates are based on the following assumptions: (1) employers offering a health benefit plan for the first time as a result of the bill would require participating employees to pay all or a substantial portion of the insurance premium, which would reduce the participation rate among employees. A 10% participation rate is used to calculate the estimates, with a minimum of one participating employee for business with fewer than 10 employees; and (2) employees pay health insurance premiums with pre-tax dollars, and employers do not pay a portion of the premium.

Revenue from the corporate AGI tax and the Financial Institutions Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

**Insurance Premiums Tax Impact:** The bill could increase revenue from the Insurance Premiums Tax as health insurance premiums written in Indiana increase. According to a recent survey, the average annual premium cost for health insurance is \$3,383 for single coverage and \$9,068 for family coverage. *The potential increase in the Insurance Premiums Tax would be approximately \$2.2 M in FY 2006 (the impact of one-half of the year, and \$4.4 M annually thereafter.* The estimates are based on the assumptions that 10% of employees (with a minimum of one for businesses with fewer than 10 employees) participate in the health benefit plan of employers offering the plan for the first time and workers participating in the health benefit plans are currently uninsured or not insured by another policy. A 10% employee participation rate may be conservative given that recent survey results suggest that over 84% of workers in firms offering health benefits participate in the health plan. In Indiana, approximately 12.3% of covered employees enroll in HMO plans, which do not pay the Insurance Premiums Tax. This is accounted for in these estimates. The Insurance Premiums Tax is deposited in the state General Fund. (*Note: Information on the Insurance Premium Tax liability of health insurance companies operating in Indiana is unknown. Due to the magnitude of existing tax credits available to health insurance companies operating in Indiana and the carryforward of these credits, the increase in Insurance Premium Tax revenues from the proposed credit is likely to be lower than anticipated.*)

(Revised) **College Savings Deduction:** The deduction would reduce state AGI Tax liabilities for individual taxpayers who make contributions to Indiana Family College Savings Accounts. The revenue loss due to this bill could potentially total about \$270,000 in FY 2007.

The bill creates an AGI Tax deduction for taxpayers who make contributions to a Family College Savings Account for a dependent. The deduction is equal to the lesser of either the taxpayer's contribution to the account during the taxable year or \$2,000. The bill also limits the maximum deduction for joint filers to \$2,000 annually. For a taxpayer claiming the full \$2,000 deduction, this would effectively reduce his or her annual income tax liability by \$68. Since the deduction is effective beginning in tax year 2006, the fiscal impact would begin in FY 2007. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

The estimates are based account and contribution totals for the Family College Savings Program. In 2004, approximately 2,096 Indiana account holders contributed in excess of \$2,000. A total of 1,375 Indiana account holders contributed between \$1,000 and \$2,000, with the average contribution totaling about \$1,337; and 5,473 Indiana account holders contributed less than \$1,000, with the average contribution totaling about \$239. The deductible contributions from these account holders would total about \$7.3 M under the bill, with a tax impact of about \$250,000. Based on account information from prior years, the estimate also assumes that deductible contributions would grow by about 5% annually. The impact of the deduction could potentially be lower depending upon the number of accounts where the beneficiary is not a dependent of the owner.

(Revised) **Student Loan Deduction:** The deduction would reduce state AGI Tax liabilities of individual taxpayers who are repaying student loans. The revenue loss from the deduction could potentially total about \$6.3 M in FY 2006 and \$6.4 M in FY 2007. Annual growth in the revenue loss is estimated to be about 1% thereafter.

The bill provides a deduction from Indiana AGI of up to \$2,000 for student loan payments (principal and

interest) made by a taxpayer during the taxable year that are not otherwise deducted from federal AGI. Currently, taxpayers are entitled to a deduction from federal AGI of up to \$2,500 in interest payments made during the taxable year for student loans. Federal tax data for tax years 1999, 2000, and 2001 indicates that an average of about 89,500 Indiana filers claimed the federal deduction. Assuming a rate of growth of about 1% per year in filers claiming the federal deduction, the number of filers that could potentially claim an Indiana AGI deduction for principal payments in 2005 and 2006 is estimated to total about 93,000 to 94,000. The 1% growth rate is based on the growth in degree conferral totals at Indiana colleges and universities forecast by the Indiana Fiscal Policy Institute for the period 1998 to 2014.

It is estimated that the average student loan debt is about \$16,888. Current interest rates for federal student loans are about 3.5%. Assuming a 10-year repayment schedule, annual interest payments for the average debt amount would not exceed the federal deduction limits. Thus, the deduction from Indiana AGI would be attributable primarily to student loan principal payments made by taxpayers. Based on the average debt level, interest rate, and 10-year repayment schedule, the annual principal payment would be about \$2,004. Thus, a deduction of \$2,000 would reduce the taxpayer's AGI tax liability by about \$68 annually. Since the deduction is effective beginning in tax year 2005, the fiscal impact would begin in FY 2006.

(Revised) *Medicaid Provider Tax Credit*: The credit would reduce state AGI Tax liabilities of individual taxpayers who are physicians serving Medicaid recipients. The revenue loss from the credit is estimated to be at least \$136,500 annually.

The bill establishes a nonrefundable credit equal to \$500 against a taxpayer's AGI Tax liability. The tax credit could be claimed by a taxpayer who is a physician and receives a certificate of eligibility from the Office of Medicaid Policy and Planning. To be eligible for the tax credit, a physician must serve as a primary medical provider during the taxable year under the Medicaid Program; and serve at least 500 Medicaid recipients during the year. Since the credit is effective beginning in tax year 2006, the fiscal impact would begin in FY 2007.

According to the Office of Medicaid Policy and Planning, as of November 2004, there were 2,843 primary medical providers participating in the Hoosier Healthwise and Medicaid Select Programs. Of these, there were 273 providers with 500 or more Medicaid recipients on their panel or linked to them as a patient. The estimated impact is based on current panel sizes, but could increase to the extent that this tax credit provides an incentive to physicians to increase panel size.

(Revised) *Smoking on Public Mass Transit*: Under current law, with certain exceptions, a person who smokes in a public building, in a grocery or drug store, in the dining area of a restaurant that is designated and posted as nonsmoking, or in a school bus commits a Class B infraction. The bill would add three additional restricted locations involving mass transportation and mass transportation terminals and waiting areas.

If additional court cases occur, revenue to the state General Fund may increase if infraction judgments and court fees are collected. The maximum judgment for a Class B infraction is \$1,000, which is deposited in the state General Fund. If court actions are filed and a judgment is entered, a court fee of \$70 would be assessed, 70% of which would be deposited in the state General Fund if the case is filed in a court of record or 55% if the case is filed in a city or town court.

### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Tax Deductions/Credits*: The exclusion of income used for health

benefit payments; the deduction for college savings contributions; and the deduction for student loan payments would decrease taxable income for some taxpayers. As a result, counties imposing a local option income tax (CAGIT, COIT, CEDIT) would experience an indeterminable decrease in revenue from these taxes.

(Revised) *Smoking on Public Mass Transit*: If additional court actions are filed and a judgment is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$70 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

**State Agencies Affected:** Department of State Revenue; Indiana Education Savings Authority; Department of State Revenue; Treasurer of State; State Board for Depositories; Office of Medicaid Policy and Planning.

**Local Agencies Affected:** Counties with local option income taxes; Trial courts; local law enforcement agencies.

**Information Sources:** Kaiser Family Foundation, *Employer Health Benefits 2003 Annual Survey*, available at <http://www.kff.org/insurance/ehbs2003-5-set.cfm>; and *State Health Facts Online* available at <http://www.statehealthfacts.kff.org/>; OFMA Corporate Income Tax database; Bureau of the Census, *County Business Patterns*. The Urban Institute, *Could Subsidizing COBRA Health Insurance Coverage Help Most Low-Income Unemployed?* Susan Loftus, Indiana Education Savings Authority, (317) 232-5259. OFMA Income Tax databases. Indiana Fiscal Policy Institute, *Graduate Migration from Indiana's Postsecondary Institutions*, March 1999. FinAid: Smart Guide to Financial Aid, <http://www.finaid.org/about/>. Melanie Bella, Office of Medicaid Policy and Planning, 233-4455.

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