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FISCAL IMPACT STATEMENT

LS 7286 **NOTE PREPARED:** Jan 15, 2007
BILL NUMBER: HB 1674 **BILL AMENDED:**

SUBJECT: Employee Wellness Programs.

FIRST AUTHOR: Rep. Brown C **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill requires a public employer to provide a wellness program for the public employer's employees. It provides a tax credit for a taxpayer that provides a wellness program to employees.

Effective Date: July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *Public Employer Wellness Programs:* The bill should have no state fiscal impact. The bill requires a public employer to provide a wellness program that rewards: 1) overweight employees for losing weight and all employees for maintaining a healthy weight; or 2) employees for not using tobacco. The current state health insurance plan provides a $500 decrease in the employees health insurance deductible if they commit not to use any form of tobacco in 2007. The state also provided a $10 single and $15 family biweekly reduction in health insurance premium if the employee participated in the One Care Street program. The employee has to complete a survey and set a health action goal. Therefore the current programs would satisfy the bill's requirement.

Employer Wellness Program Tax Credit: The Department of State Revenue (DOR) will incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new wellness program tax credit. The Department's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Employer Wellness Program Tax Credit:* This bill establishes a nonrefundable tax credit for employers that provide certain wellness programs to their employees. The tax credit could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. Based on survey research estimating the prevalence of wellness programs and the average cost of these programs, the tax credit could potentially reduce revenue by $600,000 to $2.5 M annually beginning in FY 2009. The revenue loss could begin in FY 2008 if taxpayers adjust their quarterly estimated payments. To the extent that additional firms add wellness programs as a result of the tax credit, the revenue loss would be higher that the estimated range. In addition, cost inflation and employment trends suggest that the revenue loss could potentially grow by 1% to 2% per year.

Background Information: The bill provides a nonrefundable tax credit against a taxpayer's AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liability for the cost of providing a wellness program to the taxpayer's employees that rewards:

(1) overweight employees for losing weight and all employees for maintaining a health weight; or

(2) employees for no using tobacco.

The tax credit is equal to 50% of the cost incurred by the taxpayer in providing the wellness programs during the taxable year. The tax credit is nonrefundable, but excess credits may be carried forward to succeeding taxable years. The bill prohibits a taxpayer from carrying back excess credits. If the taxpayer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. Since the credit is effective beginning in tax year 2008, the fiscal impact would likely commence in FY 2009. However, the fiscal impact could begin in FY 2008 if taxpayers with wellness programs reduce their quarterly estimated payments the first half of 2008.

Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums 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.

Survey research by the Kaiser Family Foundation suggests that about 5% of private sector employees in Indiana could potentially have access to wellness programs offering weight loss programs and/or smoking cessation programs. Survey research by the Wellness Councils of America (WELCOA) suggest that only about 6% of employer-provided wellness programs offer <u>no</u> incentives to encourage program participation by employees. Based on the median employment scale and wellness program budget of firms responding to the WELCOA survey, the average cost of employer-provided wellness programs could range from about $10 to $40 per employee. Current estimates by the Bureau of Labor Statistics indicate private sector employment totals about 2.5 M, with long run growth of about 1.1% annually.

<u>Explanation of Local Expenditures:</u> *Public Employer Wellness Programs:* Local units of government could experience an increase in expense depending on the type of wellness program established. The wellness program has to reward overweight employees for losing weight and all employees for maintaining a healthy weight or employees for not using tobacco. There are approximately 2,750 local units of government that employee about 190,000 employees. If each employer gave a $100 reward for weigh control or not using tobacco, the impact could be $19,000,000. The impact would be offset by possible future reduced health costs by the employer.

<u>Explanation of Local Revenues:</u>

<u>State Agencies Affected:</u> Department of State Revenue.

Local Agencies Affected: All.

Information Sources: *2006 Annual Membership eSurvey*, Wellness Councils of America, http://www.welcoa.org/. *Employer Health Benefits Annual Survey, 2005 & 2006*, Kaiser Family Foundation, http://www.kff.org/. State and Area Employment, Hours, and Earnings, U. S. Bureau of Labor Statistics, http://www.bls.gov.

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