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FISCAL IMPACT STATEMENT

LS 6947

BILL NUMBER: SB 310

NOTE PREPARED: Jan 19, 2010

BILL AMENDED:

SUBJECT: Employer Income Tax Credit for Health Care Plan.

FIRST AUTHOR: Sen. Stutzman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a state income tax credit to an employer that pays or provides reimbursement for all or part of the cost of a health benefit plan made available to employees if the employer is eligible to or did receive the credit for offering a health benefit plan. The bill allows an employer to claim a credit for 25% of the amount paid or reimbursed, up to the lesser of \$100 per employee or \$5,000 for a taxable year.

Effective Date: January 1, 2010 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement the new tax credit.

Explanation of State Revenues: *Summary:* The bill establishes a nonrefundable income tax credit for employers that pay for all or part of the cost of employee health benefits, provided the employer is eligible for, or has received, the current law tax credit for offering those employee health benefits (see explanation of this current law tax credit below under *Background Information*). The new tax credit would be available to individual and corporate taxpayers. It is estimated that the new tax credit could reduce income tax revenue by \$2.0 M in FY 2011 and \$2.8 M in FY 2012.

This estimate is based on: (1) the first-year response by employers to the current law tax credit for offering a health benefit plan to employees; and (2) assumed initial and long-run growth rates for the new tax credit for paying employee health benefit costs based on experience with the start-up of other tax credits and deductions. The revenue loss from the new tax credit for paying employee health benefit costs could be

significantly higher if it induces more employers to offer and pay for employee health benefits than can be inferred from the response to the current law tax credit for offering employee health benefits.

Background Information: Employer Tax Credit for Paying Health Benefit Costs for Employees - (This tax credit is proposed in the bill.) The tax credit would be available on an annual basis to employers who are eligible for, or have received, the employer tax credit for offering an employee health benefit plan under current statute. Beginning in tax year 2010, the tax credit could be claimed by eligible employers who are individual or corporate taxpayers. The tax credit is nonrefundable. Unused tax credits could be carried over to subsequent tax years, but could not be carried back. The allowable tax credit would be equal to the lesser of: (1) 25% of the employee health benefit costs paid by the employer during the taxable year; (2) \$5,000; or (3) \$100 per employee for whom the employer paid health benefit costs during the taxable year.

To obtain the maximum \$100 tax credit for an employee, an employer would have to pay \$400 in annual health benefit costs for that employee. Survey estimates by the Kaiser Family Foundation suggest that 60% of all employers offered employee health benefits to their employees in 2009, with about 81% of eligible employees enrolling in these health benefit plans. The survey estimates suggest that the average annual premium cost in 2009 for employee health benefits was \$4,824 for single coverage and \$13,375 for family coverage. The estimates also suggest that employers paid an average of about \$4,045 (84%) of the single-coverage premium and \$9,860 (74%) of the family-coverage premium. The \$400 annual total would comprise about 8% of the 2009 average premium for single coverage (per the Kaiser survey) and about 3% of the 2009 average premium for family coverage (per the Kaiser survey). Given that the credit may translate into only a relatively small subsidy for employee health benefit costs, the response by employers to the tax credit is not expected to be much different from the response to the employer tax credit for offering employee health benefits under current statute.

Employer Tax Credit for Offering Health Benefits to Employees - (This tax credit is provided under current statute.) The tax credit is nonrefundable and may be claimed in each of the first two years that an employer makes a health benefit plan available to employees. The credit is equal to \$50 per employee who enrolls in the health benefit plan up to a maximum of \$2,500 per year in each of the first two years the employer offers the health benefit plan. An employer claiming this tax credit is not required to pay any of the cost of the employee health benefits. However, if the employer does pay any portion of the health benefit cost, it must be done on an equal basis for all full-time employees.

An employer claiming the tax credit must offer the health benefit plan for at least 24 consecutive months after the taxable year in which the health benefit plan is initially offered. In 2007 (the first year of the tax credit), 216 taxpayers (214 individual taxpayers and 2 corporate taxpayers) claimed credits totaling \$139,739. The average tax credit was about \$647. This suggests that taxpayers claiming the tax credit in 2007 had an average of about 13 employees enrolling in the health benefit plan offered by the taxpayer. Future growth in the number of taxpayers claiming the tax credit depends on: (1) the extent that employers are aware of the tax credit; (2) the share of the health benefit cost paid by the employer; and (3) the extent that employers already planning to offer health benefits and pay a significant share of the health benefit cost qualify for, and claim, the tax credit.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: OFMA Income Tax databases 1996-2008; Kaiser Family Foundation, *Employer Health Benefits: 2009 Annual Survey*.

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