F I S C A L I M P A C T R E P O R T

SPONSOR: Coll DATE TYPED: 2/28/03 HB 130/aHTRC

SHORT TITLE: Delete Exemptions from Premium Tax SB

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	32,000.0		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB331

SOURCES OF INFORMATION

Responses Received From

PRC
LFC Files

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment allows government health insurance premiums to remain exempt from tax.

Synopsis of Original Bill

House Bill 130 eliminates the insurance premium tax exemption for all government contracts. The amendment is applicable to premiums received in 2003 and subsequent years. Temporary language allows taxpayers to escape penalty and interest for liability generated in the first quarter of 2003 because of this act.

Significant Issues

This is a key component of the LFC budget proposal.

FISCAL IMPLICATIONS

The numbers in the revenue table are gross amounts.

Although it superficially appears to be a selective sales tax, the insurance premium tax is actually structured as an income tax. Estimated annual calendar year liability is paid on the quarter and final settlements are remitted in April. The FY04 cash flows are the sum of 4 quarterly estimated payments (half in 2003 and half in 2004) and a final settlement (payable in April 2004) for liability generated in the first quarter of 2003. The first year impact essentially includes 5 quarters of revenue.

Recent information indicates that the MCO's may not be able to pass the tax on without amendments to their existing contracts. The cost of amending the bill to hold them harmless is roughly $2 million a month; if the contracts were amended effective March 2003, the estimate would be reduced by a little more than $4 million.

The estimate assumes that only premiums attributable to Medicaid would generate revenue. While state government, municipal and county associations contract health care on an administrative service only (ASO) basis, certain cities such as Albuquerque finance health care with traditional risk sharing arrangements. If these local governments were not able to reorganize their contracts, the revenue generated would rise accordingly. PRC estimates that this revenue could be as high as $5 million.

OTHER SUBSTANTIVE ISSUES

Research conducted by experts prior to the legislative session indicated that an amendment less broad than the one contemplated in this bill would be viewed by the federal government as a special tax. This was the rationale for removing all government exemptions; it was believed that a more targeted amendment would most likely provoke a federal reaction. New analysis just received casts doubt on this conclusion. The conclusion of this new analysis is that it is permissible to exclude premiums received from state or local governments for the benefit of active or retired employees.

SS/sb/njw