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FISCAL IMPACT REPORT

SPONSOR:	Feldman	DATE TYPED:	02/05/00	HB	
SHORT TITLE:	Health Insurance Income Tax Deduction			SB	61/aSWMC
				ANALYST:	Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY00	FY01			
		See Narrative	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to

SOURCES OF INFORMATION

Health Policy Commission (HPC)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SWMC Amendment

The Senate Ways and Means Committee amendments make three changes to the original bill: 1) a technical change to clarify the applicability of insurance; 2) caps the amount of the deduction to \$1,000 per exemption and 3) adds Medicare Part B premiums to the list of eligible insurance.

Synopsis of Original Bill

Endorsed by the Legislative Health and Human Services Committee. Authorizes an income tax deduction from net income for state personal income tax purposes for premiums paid for health insurance for the taxpayer and dependents during the tax year. The deduction could not be claimed to the extent premiums have been excluded from the taxpayer's adjusted gross income or those amounts are itemized for federal tax purposes. Eligible health insurance includes medical, dental, vision and long-term care. Married filing separately would split the deduction. Applies to tax year 2000 and beyond.

FISCAL IMPLICATIONS

There is considerable uncertainty on the magnitude of potential revenue loss resulting from this legislation due to the following factors:

- The first uncertainty is the potential amount of premiums deductible. Based on Health Policy Commission data for New Mexico, TRD estimated an average per capita premium of \$1,200 in its original bill analysis. HPC noted their 1999 household survey showed typical 1998 payments/contributions for health care premiums were close to \$2,000 per year for families and over \$1,000 for individuals. However, according to a 1996 survey noted by TRD, total private sector health premiums reflected averages paid the by employee of approximately \$510. Further, in a national study by Lewin and Associates, premium and out-of-pocket payments for health care were on average, for an entire family, estimated from \$229 to \$1,239 depending on income.

- Second, the extent to which employees in the state are enrolled in programs, known as cafeteria plans, under which these health insurance premiums are withheld before imposition of tax is not known.
- There is also an unknown number of self-employed persons who deduct a portion of health insurance premiums as adjustments to income.
- TRD has only estimates of the amount of health insurance premiums currently deducted on federal and state tax returns as itemized deductions, since other health expenses can also be deducted.

TRD does not yet have data available on the fiscal impact of the amendments. **An updated LFC report will be released after receipt of the TRD analysis.**

ADMINISTRATIVE IMPLICATIONS

This technically difficult deduction would potentially require significant audit activity which would be difficult to address under current funding levels. TRD estimates annual cost for auditing to ensure compliance with these provisions of \$3,500.0 per year for four years.

OTHER SUBSTANTIVE ISSUES

HPC notes in 1998 about 14% of New Mexico adults had no health care coverage for the entire year and about 7.1% had coverage for only part of the year. The most common reason cited for lack of health care coverage was affordability. This group is disproportionately weighted towards households with lower incomes.

AW/gm