

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 20 (Third Edition)

SHORT TITLE: Health Insurance Credit/Minimum Wage.

SPONSOR(S): Representatives Holliman, Ross, Goforth, and Bordsen

	FISCAL IMPACT				
	(\$MIL.)				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES:					
State General Fund	-27.1	-62.7	-63.4	-64.3	-36.1
EXPENDITURES:					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Income taxes are administered by the Department of Revenue. The enactment of the bill is not expected to affect the budget requirements of the Department.					
EFFECTIVE DATE: See "Bill Summary"					

BILL SUMMARY: **Small Business Health Insurance Tax Credit.** Allows an employer who provides health benefits for all employees to take a state tax credit for the employer's costs in providing the benefits. The credit can be taken against the income or franchise tax. To be eligible, the employer must pay at least 50% of the premiums for health coverage that meets or exceeds the minimum provisions of a basic health care plan of coverage recommended by the Small Employer Carrier Committee, or the employees have qualifying existing coverage (Medicare, Medicaid, a government sponsored program, or a health insurance or benefits arrangement that provides sufficient benefits). In addition, the employer must have no more than 25 employees.

The credit is equal to 100% of the employer's cost of providing the benefits, up to a maximum of \$800 for each employee covered. The credit is limited to 50% of tax liability, with a five-year carry forward.

The credit is effective for tax years beginning on or after January 1, 2006 and expires for tax years beginning on or after January 1, 2010.

State Minimum Wage. Section 2 of the bill increases the state minimum wage from \$5.15 per hour to \$6.00 per hour.

ASSUMPTIONS AND METHODOLOGY: Small Business Health Insurance Tax Credit

The first step in the analysis was to review the detailed employer health insurance data from the 2001 Medical Expenditure Panel Survey from the Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services. The data included a tabulation of the number of firms in North Carolina who offered health coverage for employees, by size of firm. One of the breakpoints in the distribution data was for firms of 25 or less employees. The data indicated that 31% of employees are presently covered by employer-sponsored plans in this category.

The survey data included a tabulation of the cost of various types of coverage. For 2001 the average employer's costs ranged from \$3,024-\$4,971 per year, depending on the number of family members covered. Data for 1998-2002 from the Department of Insurance indicates that the average annual cost is rising at double-digit rates. Since the credit limit is far less than 100% of a typical employer's cost, the actual amount of the average costs do not affect the calculation.

There is no way to make a reliable prediction of the proportion of uncovered employees who would receive coverage as a result of the \$400 tax credit. For the purpose of this analysis, it was assumed that 25% of the uncovered employees would begin to be covered.

The credit is limited to 50% of the taxpayer's income tax liability for the tax year. In this analysis, we are assuming that the limitation leads to a credit utilization rate of 40% in the year of credit eligibility.

The credit cost was calculated using the 2001 survey data. The number was used also for 2005 under the assumption that the sharp rise in the employer's cost for health insurance coverage has reduced the proportion of employers who choose to provide coverage. Thus, the number of covered workers would not rise even though the number of small business establishments would go up.

For years following 2005, annual growth based on projected nonagricultural employment in North Carolina was used. This estimate was made by the nationally recognized forecasting firm of Economy.com (July 2005).

The tax year costs were split into fiscal years using the assumption that 45% of the cost of a credit would occur during the January-June period and the remainder during the second half of the tax year. The 45% assumption reflects April and June estimated tax payments and the fact that taxpayers can avoid an underpayment penalty for estimated taxes by sending in at least 90% of the annual liability during the tax year.

A review of similar incentives in a handful of other states did not provide any useful information due to the differences in types of incentives.

State Minimum Wage. Currently no permanent state employee is paid at or below the minimum wage. The State's temporary employment agency – Temporary Solutions – reports that their lowest hourly wage is for an intern, who earns approximately \$8.00 per hour. For all others, the hourly wage is \$8.63 or more. As such, this change will have no direct impact on the state budget. No data is available on the wages paid by local governments, but the effect on these units is expected to be small.

The Employment Security Commission reports that approximately 2.6% of North Carolina hourly workers make at or below the minimum wage (some food service workers can be paid below minimum wages if they can earn tips). This suggests that approximately 1.4% of all state workers, hourly and salaried, make at or below the minimum wage.

SOURCES OF DATA: Employment Security Commission

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: David Crotts and Linda Struyk Millsaps

APPROVED BY: James D. Johnson, Director
Fiscal Research Division



DATE: August 11, 2005

Signed Copy Located in the NCGA Principal Clerk's Offices