

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 2335 (Second Edition)

SHORT TITLE: Extend and Expand Small Business Health Benefits Credit.

SPONSOR(S): Representatives Weiss, Luebke, Wainwright, and Gibson

	FISCAL IMPACT				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
REVENUES					
(\$ millions):					
Small Bus. Health Insurance Credit	(8.5)	(17.3)	(17.8)	(18.5)	(19.2)
Expand Small Business Health Ins. Credit	(1.6)	(3.5)	(3.6)	(3.7)	(3.9)
Total General Fund Impact	(10.1)	(20.8)	(21.4)	(22.2)	(23.1)
EXPENDITURES:					
POSITIONS					
(cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: This act would be effective when it becomes law.					

BILL SUMMARY: This proposal extends for five years the following tax credit for small business employee health benefits due to expire January 1, 2009: This version of the bill also expands the credit from \$250 to \$300 per employee beginning January 1, 2009.

Credit for Small Business Employee Health Benefits

Eligibility. – Effective for taxable years beginning on or after January 1, 2007, a small business that provides health benefits to all of its full-time employees is eligible for a tax credit. Under the Internal Revenue Code, an employer may deduct premiums paid for health insurance cost of its employees as a business expense. The credit is in addition to any expense deduction the taxpayer claimed on its income tax return for the health insurance costs.

Credit Amount. – The credit amount is equal to \$250 per employee for whom the taxpayer pays the health insurance premium, not to exceed the taxpayer's cost of providing the health insurance benefit. The taxpayer may use the credit against either its income tax or its franchise tax liability. The credit may not exceed 50% of the taxpayer's tax liability. Any unused portions of the credit may be carried forward for five years. The credit is effective for taxable years beginning on or after January 1, 2007.

Definitions. –

- A small business is a taxpayer that employs no more than 25 full-time employees.
- An eligible employee is one that works a normal workweek of 30 or more hours and whose total wages or salary received from the business does not exceed \$40,000 on annual basis.
- Providing health benefits means one or more of the following:
 - The taxpayer pays at least 50% of the premiums for health insurance coverage that equals or exceeds the minimum provisions of the basic health care plan of coverage recommended by the Small Employer Carrier Committee.
 - The employee has existing coverage under one or more of the following: Medicare; Medicaid; a government funded program; a health insurance or benefit arrangement that provides benefits similar to or in excess of benefits provided under the basic health care plan.

This version as amended by the Proposed Committee Substitute also expands the credit from \$250 per employee to \$300.

Sunset. – The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2009. This bill would extend the tax credit for five years through the year 2013.

ASSUMPTIONS AND METHODOLOGY: This credit became available to small businesses beginning in the 2007 tax year. It is too early to tell what credits were taken in tax year 2007, returns are just now being received and total credits taken will probably not be known until sometime in 2009. The fiscal note attached to the original bill estimated fiscal year impacts of \$16 to \$18 million. Until actually data becomes available, the previous fiscal analysis is our best understanding of what impact can be expected from extending the credit.

That analysis used 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.

There is no way to make a reliable prediction of the proportion of uncovered employees earning \$40,000 or less who would receive coverage as a result of the \$250 tax credit. For the purpose of the analysis, it was assumed that 8% of all uncovered employees would begin to be covered.

The fiscal impact was estimated by inflating health insurance cost to current amounts and assuming the number of covered workers would not rise even though the number of small business establishments would go up.

Annual growth is based on projected nonagricultural employment in North Carolina. This estimate was made by Moody's economy.com (April 2008).

The tax year costs were then 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.

The cost of expanding the credit from \$250 to \$300 per employee was calculated based on the original estimate and the 20 percent increase in the per employee allowance.

SOURCES OF DATA: Department of Revenue, Moody's economy.com

TECHNICAL CONSIDERATIONS: None

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