GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 20 (First Edition)

SHORT TITLE: Small Business Health Insurance Credit.

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

FISCAL IMPACT ($MIL.)

Yes (X) No ( ) No Estimate Available ( )

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
REVENUES:					
State General Fund	-21.5	-48.1	-48.6	-49.3	-50.2
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: Tax years beginning on or after January 1, 2006.

BILL SUMMARY: 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. 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 $400 for each employee covered. The credit is limited to 50% of tax liability, with a five-year carryforward.

ASSUMPTIONS AND METHODOLOGY: 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 will be 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 10% 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 80% 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, Economy.com (January 2005).

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.

SOURCES OF DATA: 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.

TECHNICAL CONSIDERATIONS: None

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