

INDIVIDUAL INCOME TAX
Subtraction for Health Insurance Premiums

April 17, 2001

Department of Revenue
Analysis of H.F. 2346 (Daggett)/S.F. 2213 (Tomassoni)

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings	X	

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
			(000's)	
General Fund	(\$32,700)	(\$35,300)	(\$38,100)	(\$41,200)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: Minnesota currently allows a subtraction for self-employed health insurance not deducted on the federal return and conforms to federal treatment of employer-provided health insurance and itemized deductions for medical expenses.

Proposed Law: The current health insurance subtraction for self-employed would be expanded to include all taxpayers. The subtraction would include health insurance premiums that are eligible for the itemized deduction for medical expenses but not deducted in determining federal taxable income or used for the long-term care insurance credit.

REVENUE ANALYSIS DETAIL

- Minnesota health insurance premium estimates for 1999 were obtained from the Minnesota Department of Health.
- The estimated \$6.9 billion was grown 10% annually to an estimated \$8.4 billion for 2001.
- Based on the calculations in the 2000 Tax Expenditure Budget, approximately \$7.6 billion is already excluded from income as an employer-provided benefit and another \$151 million is deducted under the self-employed health insurance subtraction (both federal and Minnesota portions) in 2001.
- It was assumed that an additional \$105 million is already deducted in the total medical expense itemized deduction.
- The taxable amount of \$544 million was reduced by 15% to \$462 million to account for filers who have no taxable income to offset.
- To this was added \$98 million to account for Medicare Part B premium payments, assuming about one quarter of enrollees will be able to use this deduction.

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- The resulting amount of \$560 million was reduced by \$15 million for premiums used for the long-term care insurance credit.
- An average marginal rate of 6% was applied to the base of \$545 million. The impact was estimated to grow by 8% annually.

NUMBER OF TAXPAYERS AFFECTED: Cannot be exactly determined from the data sources used in the analysis. Approximately 160,000 Medicare enrollees are included and about 200,000 additional taxpayers if one assumes average annual premiums of \$2,500.

ADMINISTRATIVE/OPERATIONAL IMPACT

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, there will be significant costs associated with increased use of the subtraction.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>