



# SJR 22 Joint Subcommittee on Health Care and Health Insurance

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## 57th Montana Legislature

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March 15, 2002

TO: SJR 22 Subcommittee members and Interested Persons  
FROM: Gordy Higgins, Legislative Services Division  
RE: Draft Summary of Tax Credit Working Group activities

Rep. Joe McKenney established a tax credit working group to develop the preliminary design of a tax credit for the purchase of health insurance. The working group will report their progress to the full Subcommittee at the April 4 meeting. Each working group member and attendee was given an opportunity to offer their perspective on the issue. What follows is a list of attendees, a summary of comments and questions, decisions reached, and future direction.

The Working Group will hold a conference call on Friday, March 22, 2002, at 10:00 am to finalize the design of the credit proposal and provide further instructions to staff. The Helena portion of the call will be held in Room 137. Instructions for participants will be provided Wednesday, March 20.

The group instructed the staff to prepare a meeting summary, a description of the eligibility and design criteria (included as tables in this document), and work with insurers to gather average product pricing information for individuals and small groups.

The group decided to review the design criteria discussed at the meeting, adjust it as necessary, and request assistance from the Legislative Fiscal Division and the Department of Revenue to project costs. The group also decided to focus on the design process and cost projections before discussing alternatives for financing the proposal.

### Attendees:

Sen. Jon Ellingson  
Rep. Bob Lawson  
Rep. Bill Price  
Keith Colbo, New West Health Care and Pfizer Pharmaceutical  
Aidan Myhre, MT Chamber of Commerce  
Tanya Ask, BC/BS of Montana  
David Kendall, Progressive Policy Institute  
Jean Branscum, Office of the Governor  
Claudia Clifford, Office of the Insurance Commissioner  
Mary Whittinghill, Montana Taxpayers Association  
Webb Brown, MT Chamber of Commerce  
Mary Allen, MT Insurance Agents and Financial Advisors  
Riley Johnson, National Federation of Independent Business - Montana

## Proceedings:

Sen. Ellingson opened the meeting by stating that his understanding of the task given the working group is to design a proposal that would offer tax credits to individuals and small businesses to assist them in purchasing health insurance. Additionally, because a tax credit is an expenditure and will effect the state's general fund, a method of financing the proposal is necessary. Ellingson encouraged the other legislative members and guests to offer their initial perspectives as well.

Rep. Bob Lawson urged the working group to consider not only the uninsured but also those people or small businesses who are insured but facing increasing premiums costs. He also mentioned that funding sources need to be sustainable in order to assure that a tax credit proposal continues to meet the policy goals it is designed to achieve.

Opening statements from the interested persons revolved around the following themes:

- ▼ Tax credits should be targeted to both individuals and small businesses.
- ▼ The credit should be structured to assist the insured and the uninsured.
- ▼ Tax credits to small businesses should not be limited to those businesses who have not or are not offering coverage to their employees.
- ▼ All business entities should be eligible for a tax credit, including non-profit entities.
- ▼ Forge a balance between cost and effectiveness.
- ▼ The credit must be large enough or be attractive enough for the eligible population to take advantage of the credit.
- ▼ From a small business perspective, the tax credit proposal must be simple enough to warrant its use.

## Past Tax Credit Efforts

Staff and others provided a basic description of the existing tax credit offered to employers who purchase health insurance for employees. Section 15-31-132, MCA, authorizes a credit against income taxes to small businesses who pay at least 50% of their employee's health insurance. The credit is \$25 a month for each employee if the employer pays the full premium, or \$25 multiplied by the percentage the employer contributes. The credit was originally tied to a reform effort that provided for a limited benefit plan that was initially designed to be free of many mandated benefits. Insurers marketed the plan but reported that it was not widely used.

Claudia Clifford of the State Auditor's Office described SB 316, introduced in 2001 by Sen. Stonington, which authorized a 5-year tax credit available to employers with 2 to 9 employees and who had not provided health insurance the two years previous to claiming the credit. The credit was 50% of the annual premium paid, not to exceed \$200 for the first year, 35% the second year, and 25% the remaining three years. A business could not deduct the premium expenses and receive the credit. The credit could be carried forward through the sixth year.

Ms. Clifford noted that SB 316 had drawbacks, including the phased-out percentage of the credit and the provision that limited eligibility to small businesses who had not offered benefits the previous two years.

Several members of the group referred to HB 618, sponsored by Rep. Balyeat during the 2001 session, as another example of changing tax policy to deal with the high cost of health insurance. Rep. Balyeat's bill proposed a refundable credit equal to 30% of any increase in expenditures for health insurance beyond a base year (tax year 2000). Eligibility was limited to individuals and their families who either purchased their insurance in the individual market or were not covered by their employer. A person could not claim a deduction related to health insurance premiums. Funding for this credit was realized from a statutory appropriation from the tobacco settlement trust fund. (A copy of HB 618 and the fiscal note is provided with this document)

### Principles Guiding Tax Credit Proposals

David Kendall, Health Policy Specialist from the Progressive Policy Institute, provided numerous comments related to the desirable attributes of an effective tax credit policy using a paper he co-authored as a guide. The paper, *Expanding Access and Choice for Health Care Consumer Through a Tax Credit*, is included with this summary.

### Group Discussion and Questions

Sen. Ellingson proposed that the design phase begin with a discussion of several issues and that as questions were raised that required additional research and analysis, that the staff make note of those questions and gather the answers. The discussion included the following topics:

- ▼ Who is eligible for a tax credit (including decisions related to income eligibility, size of small businesses, history of offering or having health insurance, etc);
- ▼ What is the average cost of a basic and traditional insurance plan for individuals and small groups;
- ▼ Should the credit be a set dollar amount or a percentage of average premiums;
- ▼ Should the credit be refundable, advanceable or both;
- ▼ Should the credit be indexed to allow for growth over time;
- ▼ How should the credit be structured to ensure it is used for the purchase of health insurance;
- ▼ Should a standard, basic health benefit package be created to increase the chances of purchasing insurance with the credit;
- ▼ Should deductibility be maintained, reduced by the credit, or eliminated as a condition for receiving the credit;
- ▼ What is the effect on the general fund; and
- ▼ How should the credit be financed.

Several other questions and comments were asked throughout the course of the meeting, including:

- ▼ What percentage of an annual premium should the credit cover?
- ▼ How will the differences between the individual and small group market affect the credit design?
- ▼ If a tax credit is authorized, how should existing deductibility of premium costs be addressed?

- ▼ Should the credit be offered in addition to deductibility?
- ▼ Would individuals and small businesses rather deduct their costs associated with providing health insurance or receive a tax credit?
- ▼ How well known and used is the deductibility provision in Montana tax law?
- ▼ How would a tax credit work with public programs?
- ▼ Should the credit be used to "buy-in" to CHIP?
- ▼ How does the uninsured population change?

Design Features:

The group agreed that the following decisions guide the initial proposals for an individual and small business tax credit. In some cases, there is more than one factor or condition that limits or expands eligibility. In those instances, cost scenarios will reflect the differences. One example can be found in the small business eligibility table where size of eligible firms is listed both at 50 employees or less and 25 employees or less. The following tables outline eligibility and other design issues.

Eligibility Table 1

<b><i>Individuals</i></b>	Details	<b><i>Small Businesses</i></b>	Details
<b>Eligibility</b>		<b>Eligibility</b>	
Montana Resident		10 or fewer employees 25 or fewer employees 50 or fewer employees	Cost projections will be assessed using each of the three size categories
No available coverage from small employer who is eligible for a tax credit.		All business entities eligible.	
Ineligible for Medicaid or CHIP.		Credit available to all eligible businesses regardless of whether insurance is provided now.	
150% of FPL 200% of FPL 250% of FPL	Cost projections will be assessed using each of the three income categories	Targeted by employee wages -- 150%, 200%, 250% of FPL.	Cost projections will be assessed using each of the three income categories

Design Table 1

Individuals		Small Businesses	
Refundable		Refundable	
Advanceable		Carryforward provision	
Voucher or Cash		Voucher or Cash	
Credit sent directly to insurer if purchasing in the individual market.		Credit sent directly to insurer if purchasing in the individual market.	
<b>Design Criteria and Questions Common to Tax Credits for Individuals and Small Businesses</b>			
<ol style="list-style-type: none"> <li>1. If credit is a percentage of average annual premium, the credit is at least 75% of that premium for eligible people at 150% of FPL, 60% at 200% of FPL, and 50% at 250% of FPL.</li> <li>2. If credit is a flat dollar amount, the credit is at least \$1250 for singles and \$3000 for families (estimate of 50% of an average annual premium for individual plans at income levels between 200% and 250% of FPL.). A similar calculation will be made for 75% of the premium and 60% of the premium.</li> <li>3. The credit should be used with a specific benefit plan - at least a major medical plan. Plans that offer wellness and risk management programs may also qualify. The credit may not be used for supplemental insurance plans.</li> <li>4. The credit may be used for purchasing coverage with MCHA and potentially for a full cost buy-in under CHIP.</li> <li>5. Eligible individuals and small businesses may claim the credit and claim current deduction of health insurance premiums.</li> <li>6. The credit is not considered taxable income.</li> <li>7. Should a cap be placed on the total amount of the tax credit available to limit the use?</li> </ol>			