SCS Agency
Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Kaloogian | Analyst: Garnier | Bill Number: AB 2107

Related Bills: AB 1991, AB 2131 | Telephone: 845-5322 | Amended Date: 4-23-98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Health Insurance Deduction/Indivduals/100% of Amount Paid

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ________________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 18, 1998 STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law, this bill would allow all individuals to deduct from gross income 100% of the cost of health insurance, up to the sum of the earned income of the taxpayer and taxpayer's spouse.

SUMMARY OF AMENDMENT

The amendment increased the maximum percentage allowable as a deduction from 80% in 2006 to 100% in 2007 (the current federal phase in amounts). The amendment also allows the deduction even if the taxpayer or the taxpayer's spouse is eligible to participate in an employer subsidized health plan and expanded the self-employed earned income limitation to all earned income.

The amendments resolved the department's Policy Consideration.

EFFECTIVE DATE

As a tax levy, this bill would be effective upon enactment and become operative for taxable years beginning on or after January 1, 1998.

SPECIFIC FINDINGS

Except for the discussion in this analysis, the analysis dated February 18, 1998 still applies.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR ____X____ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department/Legislative Director Date Johnnie Lou Rosas 4/29/98	Agency Secretary Date	By: Date:

This bill would increase the percentage of health insurance deductible by individuals from the current amount of 25% to 100% in 2007, as follows:

45% in 1998 and 1999,
50% in 2000 and 2001,
60% in 2002,
80% in 2003 through 2005,
90% in 2006, and
100% in 2007 and thereafter.

These phase-in amounts follow the current federal phase-in amounts.

As opposed to the federal self-employed health insurance deduction, **this bill** would allow a deduction for any individual even if the individual or individual's spouse is eligible to participate in any subsidized health plan of any employer of the individual or individual's spouse. The same definition for "health insurance costs" used for federal self-employed health insurance deduction would apply to the deduction for this bill.

Additionally, **this bill** would limit the dollar amount of the health insurance deduction to the sum of the taxpayer's and taxpayer's spouse wages, salaries, tips, other employee compensation in addition to "earnings from self-employment" (with minor modifications).

FISCAL IMPACT

Departmental Costs

The provisions of the bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses from this provision are estimated to be as shown in the following table.

Fiscal Year Cash Flow Impact Effective 1/1/98 Enacted after 6/30/98 $ Millions								
1998-9	1999-0	2000-1	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7
($165)	($150)	($175)	($200)	($280)	($385)	($415)	($460)	($560)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion:

The revenue impact of this provision would be determined by the number of individuals who pay any portion of their health insurance premiums, the cost of premiums, and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in the following steps. First, according to the 1996 U.S. Statistical Abstract, total national health insurance premium payments by households was $70.6 billion for 1994. Second, this number was grown 7% per year to yield $92.5 billion for 1998. Third, it is estimated that California represents 12% of the national amounts, generating approximately $11 billion in qualified insurance premium payments. Fourth, this number was reduced by 20% to account for the earned income requirement, leaving approximately $9 billion in qualified insurance payments. Fifth, the amount of current deductions taken under the Personal Income Tax Law by taxpayers (i.e. households including self-employed) was calculated to be approximately $1.1 billion for 1998, representing around $50 million in tax reductions for 1998 under current law. Sixth, the total deduction was calculated at the proposed 45% at a 4.5% marginal tax rate for 1998, generating a $180 million tax loss. These steps resulted in a 1998 estimate of an additional $130 million tax loss. The 1998-9 fiscal year estimate consists of the 1998 tax loss ($130 million) and 25% of 1999 reflecting reduced estimated tax/withholding payments. Seventh, the total deduction was then calculated at various percentages from 45% phasing up to 100% by the year 2007. Losses were grown to reflect a 7% increase in premiums based on current historical averages.

BOARD POSITION

Pending.