

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Davis Analyst: Jeff Garnier Bill Number: AB 1991

Related Bills: AB 305, AB 2107, AB 2131 Telephone: 845-5322 Amended Date: 5-18-98

Attorney: Doug Bramhall

Sponsor:

SUBJECT: Health Insurance Deduction /40% Of Amount Paid

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

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 _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED _____ STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

This bill would increase the percentage of self-employed health insurance costs deductible from 25% to 40%.

SUMMARY OF AMENDMENT

The May 18, 1998, amendment removed language that would have conformed the deduction percentage to the federal percentage amounts phase in to 100% in the year 2007. The federal deduction for 1998 and 1999 is 45%.

EFFECTIVE DATE

This bill would be effective for taxable years beginning on or after January 1, 1998.

SPECIFIC FINDINGS

Except for items stated in this analysis, the department's analysis of the bill as amended on May 13, 1998 applies.

This bill would allow as a deduction 40% of the cost of health insurance incurred by a self-employed individual in the computation of adjusted gross income.

FISCAL IMPACT

Tax Revenue Estimate

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

Board Position:

_____ S _____ NA _____ NP
_____ SA _____ O _____ NAR
_____ N _____ OUA PENDING

Department/Legislative Director

Date

Johnnie Lou Rosas

6/17/98

Fiscal Year Cash Flow Effective 1/1/98 \$ Millions			
1998-9	1999-0	2000-01	2001-02
(\$14)	(\$12)	(\$14)	(\$16)

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 self-employed individuals who claim additional insurance deductions, and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in the following steps. First, the number of California resident taxpayers who currently claim the self-employed insurance deduction was calculated from returns filed for 1995 (425,000). Secondly, the current deduction amount of 25% was calculated to be \$839 on average for returns filed in 1995, making the average annual health insurance premium \$3,356 (\$839 x 4). Third, the estimated number of qualified taxpayers for 1995 was grown at 5% per year to yield 492,000 qualified taxpayers for 1998. Fourth, the insurance premium was grown at 7% per year to yield an average \$4,111 insurance premium for 1998. Fifth, the total deduction at 25% was calculated to be \$506 million for 1998 and the amount deducted for health insurance premiums on Schedule-A was calculated to be \$388 million, generating a total deduction amount under current law of \$894 million. At an average marginal tax rate of 4.5% (computed by the PIT microsimulation model for self-employed individuals), the current law revenue loss for 1998 is \$40 million. Sixth, the total deduction was calculated at 40% at a 4.5% marginal tax rate for 1998, generating a \$36 million tax loss and the amount deducted for health insurance premiums on Schedule-A was calculated to be \$14 million, generating a total \$50 million tax loss. These steps resulted in a 1998 estimate of an additional \$10 million tax loss. The 1998-9 fiscal year estimate consists of the 1998 tax loss (\$10 million) and 30% of 1999 reflecting reduced estimated tax payments. Losses were grown to reflect a combined annual growth of 5% (qualified taxpayers) and 7% (premiums) based on current historical averages.

BOARD POSITION

Pending.