

STATE OF WISCONSIN

REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS

2001 ASSEMBLY BILL 51

[Introduced by Representatives Hahn, Hundertmark, Krawczyk, Townsend, Plale, Miller, Pettis, Sykora, Rhoades, Lassa, Huebsch, Jeskewitz, Powers, Skindrud, Schooff, Owens, Olsen, Leibham, F. Lasee, La Fave, Freese, Ladwig, Lippert, Hoven, Gunderson, Gronemus, Kedzie, Vrakas, Reynolds, Kestell, Plouff, Petrowski, Stone, Balow, Johnsrud, Nass, Williams, Ainsworth, Seratti, Urban, Musser, Wade, Albers, McCormick, Huber, Ott and Shilling; cosponsored by Senators Breske, M. Meyer, Roessler, Wirsch, Darling, Plache, Lazich, Schultz and Huelsman.]

General Nature of Proposal

Under current law, a self-employed individual may deduct from income for Wisconsin income tax purposes, 100% of the amount the individual pays for medical care insurance. In addition, an individual who is an employee may deduct from income for Wisconsin income tax purposes, 50% of the amount paid by the individual for a medical care insurance policy, if the individual's employer pays no amount of money toward the individual's medical care insurance policy.

"Medical care insurance" means a medical care insurance policy that covers the person, his or her spouse and the person's dependents and provides surgical, medical, hospital, major medical or other health service coverage and includes payments for medical care benefits under a self-insured plan. Medical care insurance does not include hospital indemnity policies or policies with ancillary benefits, such as accident benefits or benefits for loss of income resulting from a total or partial inability to work because of illness, sickness or injury.

The bill provides that an individual, other than a self-employed individual, who has no employer, or an individual who is an employee may deduct 100% of the amount the individual pays for medical care insurance if the individual's employer, if the individual is employed, pays no amount of money toward the individual's medical care insurance policy.

The bill first applies to taxable years beginning on January 1, 2001.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

The Department of Revenue estimates the fiscal effect of this bill as follows:

Under current law, self-employed persons may deduct 100% of their health insurance premiums, and persons who are employed by another person may deduct 50% of their premiums if their employer does not contribute to their health insurance coverage. This bill would provide a

deduction for 100% of premiums for employed persons whose employer does not contribute to their health insurance. It would also create a deduction for 100% of the health insurance premiums for persons who are not employed and who are not eligible for the deduction for the self-employed.

Simulations on the 1999 Wisconsin Individual Income Tax Model, adjusted to reflect current law, indicate that this bill would reduce individual income tax revenues by a total of \$3.9 million:

1. Doubling the existing deduction from 50% to 100% of premiums for persons whose employer does not contribute to their health insurance would reduce revenues by \$0.8 million.
2. Creating a 100% deduction for persons who are not employed and who are not eligible for the deduction for the self-employed would reduce revenues by \$3.1 million. The estimate assumed that 9.1% of tax filers without earnings would be eligible for the deduction, based on information from the Employee Benefits Research Institute (EBRI) that 9.1% of all adult nonworkers are covered by private, nonemployer health plans. Further, annual premiums were assumed to be \$8,000 for family plans and \$3,000 for single coverage plans, based on information in the Group Health Insurance Index for July 1, 2000, compiled by the Wisconsin Office of the Commissioner of Insurance.

The Department would incur one-time administrative costs of \$40,300 in FY02 and \$9,400 in FY03 for modification of computer systems, data collection, and supporting expenses. The Department will also incur ongoing costs of \$87,600 for additional data collection and supporting expenses, and for audit correspondence and adjustment activity.

Public Policy Involved

This bill is good public policy.

5/4/01

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