

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB GILBERT**, on January 5, 1993, at 10:07 a.m.

ROLL CALL

Members Present:

Rep. Bob Gilbert, Chair (R)
Rep. Mike Foster, Vice Chair (R)
Rep. Dan Harrington, Minority Vice Chair (D)
Rep. Shiell Anderson (R)
Rep. John Bohlinger (R)
Rep. Ed Dolezal (D)
Rep. Jerry Driscoll (D)
Rep. Jim Elliott (D)
Rep. Gary Feland (R)
Rep. Marian Hanson (R)
Rep. Hal Harper (D)
Rep. Chase Hibbard (R)
Rep. Vern Keller (R)
Rep. Ed McCaffree (D)
Rep. Bea McCarthy (D)
Rep. Tom Nelson (R)
Rep. Scott Orr (R)
Rep. Bob Raney (D)
Rep. Bob Ream (D)
Rep. Rolph Tunby (R)

Members Excused: None

Members Absent: None

Staff Present: Lee Heiman, Legislative Council
Jill Rohyans, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: HB 76, HB 80
Executive Action: None

HEARING ON HOUSE BILL 76Opening Statement by Sponsor:

REP. TOM NELSON, Dist. 95, sponsor, said the bill allows an individual income tax deduction for the premium payment of health care insurance. The bill is one of a number of recommendations from the Governor's Health Care for Montanans Conference. The Conference, responding to the crisis in health care in the United States and Montana, explored options for better access to health care for all Montanans. He said the bill is basically a fairness issue and referred to the material in Exhibits #1 and #2.

Proponents' Testimony:

Tom Hopgood, Health Insurance Association of America (HIAA), said affordable accessible health care is one of the leading problems in both Montana and the United States today. One of the components of the comprehensive health care plan devised by HIAA is the tax deductibility of insurance premiums for a basic health insurance plan. Everyone should have health insurance and this bill is a key factor in the process of obtaining that coverage. He urged the committee members to pass the bill.

Larry Akey, Montana Association of Life Underwriters, said he represents over 600 life and health salespersons who support this bill. He said the health care issue is complex and there are no simple or quick solutions. This is a fairness issue and an important part of the problem which must be addressed.

Riley Johnson, National Federation of Independent Businesses, represents 8600 members in Montana whose average business employs three or four employees and grosses \$150,000 to \$200,000 per year. Deductibility of health insurance premiums is a critical problems for small businesses who just cannot afford an average \$5000 expense of this nature before taxes. He asked that the bill not be considered with the package of bills from the Governor's Health Care Conference. It is a tax fairness issue which small business owners are entitled to also.

John Flink, Montana Hospital Association, said his Association is concerned about people who are uninsured and sees this bill as a way to increase coverage and provide fairness in tax deductibility.

Dennis Burr, Montana Taxpayers Association, said the cost of the bill is negligible in comparison to the tax fairness issue.

Opponents' Testimony: There were no opponents.

Informational Testimony: None.

Questions From Committee Members and Responses:

REP. ELLIOTT asked Jeff Miller, Department of Revenue (DOR), if he had any specific cost figures for the bill.

Mr. Miller responded he did not, but he expected there would not be a major fiscal impact from the bill. He said he would make figures available to the committee as soon as possible.

REP. ELLIOTT asked Mr. Hopgood for information from other states that have similar legislation which might determine if there has been an increase in insurance coverage due to the deduction.

REP. RANEY expressed concern that the bill would mostly impact middle to upper income people who would save approximately \$300 to \$400 a year if the deduction was implemented. He wondered if the state should risk losing up to \$1 million, if this is not a real incentive to increasing insurance coverage for everyone who would need it.

REP. NELSON said one important factor is the deduction might allow people to continue coverage who would otherwise have to drop it because of increasing premium costs.

REP. HARPER asked Mr. Flink if his organization has a position on the provider tax on hospitals.

Mr. Flink said his organization takes the position that provider taxes are unfair and not the most effective way to fund programs

Closing by Sponsor:

REP. NELSON closed.

HEARING ON HOUSE BILL 80

Opening Statement by Sponsor:

REP. McCAFFREE, Dist. 27, sponsor, said the bill has been introduced at the request of the Montana Association of Counties. He presented the committee members with a fact sheet (Exhibit #3). REP. McCAFFREE said there are two different distributions of revenue derived from leasing county property. The bill simply provides that all revenue from leasing county property be distributed on a current year basis.

Proponents' Testimony:

Gordon Morris, Montana Association of Counties, said this is a housekeeping bill. It is sound fiscal management to eliminate the preceding year proration and distribute all the revenue on a current year basis.

Opponents' Testimony: There were no opponents.

Informational Testimony: None

Questions From Committee Members and Responses:

REP. REAM asked if the bill would result in a one year windfall.

Mr. Morris replied it would not as the revenue is just applied back to the last year's account. It is a method change, not a budgetary change.

Closing by Sponsor:

REP. McCAFFREE closed.

PRESENTATION BY SPEAKER MERCER

SPEAKER OF THE HOUSE JOHN MERCER addressed the committee members regarding the budget resolution proposal. He said the budget resolution process has been delayed in the past because the Taxation Committee must delay taxation legislation aimed at meeting the budget until Appropriations finishes its budget deliberations and adopts a proposed budget for the biennium. He proposed instituting a Select Committee comprised of two Democratic members and two Republican members of both the Taxation and Appropriations Committees. The Select Committee would attempt to determine the level of appropriation needed to meet the obligations as set forth in the Fiscal Analyst's report and the amount of money available to meet those obligations based on the Revenue Oversight Committee's estimates with regard to the general fund. The Committee would then try to determine how much of the difference between estimated income and expenditure (gap) could reasonably be reduced and how much would have to be raised in new taxes. He said this would be presented to the caucuses and then to the full House.

REP. RANEY said it is a great idea but expressed reservations about attempting to close the "gap" without prioritizing expenditures.

Speaker Mercer stressed this would be an estimating process using broad assumptions and figures, not specifics. It is an effort to look at the big picture, identify the potential "gap", and adopt a potential reduction/increase ratio that would allow both the Taxation and Appropriations Committees to proceed with a better idea of what the end result of their deliberations should be before the extreme budget "crunch" in the final days of the session.

REP. HARPER asked if the executive budget recommendations would be a part of this process.

SPEAKER MERCER said the Racicot budget is relying on \$120 million in sales tax revenues. The short answer is yes, we would rely on the executive recommendation. The long answer is to develop a fallback budget without regard to tax reform. The sales tax depends on a vote of the people. If it should fail, the fallback budget would be in place and would eliminate the need to start all over again in a special session. He said he understands the executive branch will assist in development of such a plan.

REP. DRISCOLL asked if the resolution would be drafted by the Taxation Committee.

SPEAKER MERCER said it would. There would be a lot of caucusing involved in the development and adoption of such a resolution.

REP. HARPER said he hoped this would help move the process along and he had struggled with it for years. He pointed out instituting tax increases before expenditures are cut is a very difficult thing to do.

SPEAKER MERCER said he appreciated that caution, but he is trying to find a way to avoid the rush at the end of the session by dealing with as much as possible right now.

A general discussion followed regarding different scenarios, prioritizing, and estimating methods.

CHAIRMAN GILBERT said there have been at least 13 special sessions and most of them due to lack of prior planning. It is time to try a new plan and see if it will work.

CHAIRMAN GILBERT announced the committee will meet at 9:00 a.m. Tuesday through Friday and 10:00 a.m. on Mondays until further notice.

ADJOURNMENT

Adjournment: 10:00 a.m.



REP. BOB GILBERT, Chair



JILL ROHYANS, Secretary

BG/JDR

HOUSE OF REPRESENTATIVES

TAXATION

COMMITTEE

ROLL CALL

DATE

1/5/93

NAME	PRESENT	ABSENT	EXCUSED
REP. GILBERT, CHAIRMAN	✓		
REP. FOSTER	✓		
REP. HARRINGTON	✓		
REP. ANDERSON	✓		
REP. BOHLINGER	✓		
REP. DOLEZAL	✓		
REP. DRISCOLL	✓		
REP. ELLIOTT	✓		
REP. FELAND	✓		
REP. HANSON	✓		
REP. HARPER	✓		
REP. HIBBARD	✓		
REP. KELLER	✓		
REP. McCAFFREE	✓		
REP. MCCARTHY	✓		
REP. NELSON	✓		
REP. ORR	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. TUNBY	✓		

GOVERNOR'S HEALTH CARE FOR MONTANANS
PHASE II: STEPS TO IMPLEMENTATION
October 7, 1992

EXHIBIT #1
DATE 1/5/93
HB 76

PART B STEP 3: PROVIDE FOR UNIFORM APPLICATION OF TAX DEDUCTIONS FOR HEALTH INSURANCE PREMIUMS

BACKGROUND: Individuals who are privately insured receive health insurance through several financing methods. They either receive all or some of their insurance through their employer, or they buy it themselves as self-employed individuals, or they purchase individual policies. How their insurance is obtained and who pays the premiums determines who receives what tax credits or deductions and how much. Our current system does not treat all insurance premium payers equally.

Insurance premiums paid by businesses are fully deductible either as credits or expense deductions. Self-employed individuals receive a 25% credit. Insurance premiums paid by individuals are not deductible unless their total medical expenses exceed 7.5% of their income. Fortunately most people do not reach 7.5%. Unfortunately, and unfairly, they also receive no tax advantage.

Some individuals do receive full exemption from taxes on their premiums if they are insured by a plan that allows premiums to be paid with pre-tax dollars. They, however, lose some flexibility in choosing this option. 401K

While there is debate as to the effects of allowing 100% deductibility of premiums, it is only fair to give equal credit to all persons paying insurance premiums, regardless of how the payments are made.

RECOMMENDATION: To promote tax equity and to encourage the purchase of insurance, which reduces bad debt cost shifting, tax laws need to be amended. The amendment should allow 100% full deductibility to any individual who pays insurance premiums. The three groups of individuals affected by this change are self-employed persons, those who purchase private individual policies, and those where the employee's share of employer provided insurance is paid with taxable income.

While we cannot change federal tax law we can change state law. Perhaps these changes will not result in significant increases in the number of insured individuals, but they will at least provide fairness in taxation.

LEGISLATIVE INITIATIVE: Yes

COST: Loss of income tax revenue to general fund is estimated at a low of \$500,000 and possibly up to \$1,200,000 per year.

Summary of Fiscal Impact for Governor Stephens' Health Care for Montanans Proposal - B

	Description	FY 94 General Fund Cost	FY 94 Total Cost	FY 95 General Fund Cost	FY 95 Total Cost	FY 96 General Fund Cost	FY 96 Total Cost
1A.	Montana Health Care Commission	\$72,238	\$144,475	\$72,238	\$144,475	\$72,238	\$144,475
1B.	Block Grants To Regions (\$200,000 to each Region)	\$0	\$0	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
1C.	Single Billing System	\$50,000	\$200,000	\$0	\$0	\$0	\$0
2.	Insurance For Low Income Children	\$133,933	\$317,867	\$2,712,482	\$8,558,822	\$2,893,711	\$9,017,455
3.	Uniform Application of Tax Deductions	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000
4.	Family Practice Residency Program	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
5.	Redesign Hospital Reimbursement System	\$1,932,064	\$6,120,802	\$2,788,349	\$8,577,879	\$2,788,349	\$8,577,879
	Total Costs of Health Care Proposals	\$3,238,235	\$7,833,144	\$7,623,069	\$19,332,176	\$7,804,298	\$19,789,809
7.	Implement Provider Tax on larger hospitals at 1.1%	(\$3,859,063)	(\$9,937,647)	(\$8,374,168)	(\$21,835,839)	(\$9,086,000)	(\$24,062,149)
6.	Health Care Trust Fund **	\$820,829	\$2,104,503	\$751,099	\$2,503,663	\$1,281,702	\$4,272,340

** Assumes that the health care trust fund monies can be matched with federal funds.

EXHIBIT # 8
DATE 1/5/93
HB 76

**HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER**

House Delegation COMMITTEE BILL NO. HB 76
HB 80
 DATE 1/5/93 SPONSOR(S) Rep. Wilson, Rep. McBay
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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
<u>Gordon Morris</u>	<u>MHC</u>	<u>HB 80</u> ✓	
<u>LARRY AKEY</u>	<u>MT ASSOC OF LIFE UNDERWRITERS</u>	<u>HB 76</u>	
<u>Tom K. Hopgood</u>	<u>Health Ins. Assoc. of America</u>	<u>HB 76</u>	
<u>Wm. H. Miller</u>	<u>MH and Mental Health</u>	<u>HB 76</u>	
<u>John Flink</u>	<u>MT Hospital Ass'n</u>	<u>HB 76</u>	
<u>RILEY JOHNSON</u>	<u>NFIB</u>	<u>HB 76</u>	

**PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS
ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.**