

HOUSE BILL 76

Introduced by T. Nelson

12/29	Introduced
12/30	Referred to Taxation
12/31	Fiscal Note Requested
1/04	First Reading
1/05	Hearing
1/08	Fiscal Note Received
1/08	Fiscal Note Printed
3/31	Missed Transmittal Deadline

HOUSE BILL NO. 76

INTRODUCED BY T. NELSON

A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING AN INDIVIDUAL INCOME TAX DEDUCTION FOR PREMIUM PAYMENTS FOR HEALTH CARE INSURANCE; AMENDING SECTION 15-30-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-30-121, MCA, is amended to read:

"15-30-121. Deductions allowed in computing net income.

In computing net income, there are allowed as deductions:

(1) the items referred to in sections 161, including the contributions referred to in 33-15-201(5)(b), and 211 of the Internal Revenue Code of 1954, or as sections 161 and 211 shall be labeled or amended, subject to the following exceptions which are not deductible:

(a) items provided for in 15-30-123;

(b) state income tax paid;

(2) federal income tax paid within the taxable year;

(3) expenses of household and dependent care services as outlined in subsections (3)(a) through (3)(c) and subject to the limitations and rules as set out in subsections (3)(d) through (3)(f) as follows:

(a) expenses for household and dependent care services necessary for gainful employment incurred for:

(i) a dependent under 15 years of age for whom an exemption can be claimed;

(ii) a dependent as allowable under 15-30-112(5), except that the limitations for age and gross income do not apply, who is unable to care for himself because of physical or mental illness; and

(iii) a spouse who is unable to care for himself because of physical or mental illness;

(b) employment-related expenses incurred for the following services, but only if such expenses are incurred to enable the taxpayer to be gainfully employed:

(i) household services which are attributable to the care of the qualifying individual; and

(ii) care of an individual who qualifies under subsection (3)(a);

(c) expenses incurred in maintaining a household if over half of the cost of maintaining the household is furnished by an individual or, if the individual is married during the applicable period, is furnished by the individual and his spouse;

(d) the amounts deductible in subsection (3)(a) through (3)(c) are subject to the following limitations:

(i) a deduction is allowed under subsection (3)(a) for

1 employment-related expenses incurred during the year only to
2 the extent such expenses do not exceed \$4,800;

3 (ii) expenses for services in the household are
4 deductible under subsection (3)(a) for employment-related
5 expenses only if they are incurred for services in the
6 taxpayer's household, except that employment-related
7 expenses incurred for services outside the taxpayer's
8 household are deductible, but only if incurred for the care
9 of a qualifying individual described in subsection (3)(a)(i)
10 and only to the extent such expenses incurred during the
11 year do not exceed:

12 (A) \$2,400 in the case of one qualifying individual;

13 (B) \$3,600 in the case of two qualifying individuals;
14 and

15 (C) \$4,800 in the case of three or more qualifying
16 individuals;

17 (e) if the combined adjusted gross income of the
18 taxpayers exceeds \$18,000 for the taxable year during which
19 the expenses are incurred, the amount of the
20 employment-related expenses incurred must be reduced by
21 one-half of the excess of the combined adjusted gross income
22 over \$18,000;

23 (f) for purposes of this subsection (3):

24 (i) married couples shall file a joint return or file
25 separately on the same form;

1 (ii) if the taxpayer is married during any period of the
2 taxable year, employment-related expenses incurred are
3 deductible only if:

4 (A) both spouses are gainfully employed, in which case
5 the expenses are deductible only to the extent that they are
6 a direct result of the employment; or

7 (B) the spouse is a qualifying individual described in
8 subsection (3)(a)(iii);

9 (iii) an individual legally separated from his spouse
10 under a decree of divorce or of separate maintenance may not
11 be considered as married;

12 (iv) the deduction for employment-related expenses must
13 be divided equally between the spouses when filing
14 separately on the same form;

15 (v) payment made to a child of the taxpayer who is
16 under 19 years of age at the close of the taxable year and
17 payments made to an individual with respect to whom a
18 deduction is allowable under 15-30-112(5) are not deductible
19 as employment-related expenses;

20 (4) in the case of an individual, political
21 contributions determined in accordance with the provisions
22 of section 218(a) and (b) of the Internal Revenue Code that
23 were in effect for the taxable year ended December 31, 1978;

24 (5) that portion of expenses for organic fertilizer
25 allowed as a deduction under 15-32-303 which was not

1 otherwise deducted in computing taxable income;

2 (6) contributions to the child abuse and neglect
3 prevention program provided for in 41-3-701, subject to the
4 conditions set forth in 15-30-156;

5 (7) premium payments for:

6 (a) health care insurance made directly by the taxpayer
7 or made by an employer for the taxpayer that are attributed
8 as income to the taxpayer under federal law; and

9 (b) long-term care insurance with benefits that meet or
10 exceed the minimum standards as established by the state
11 insurance commissioner; and

12 (8) contributions to the Montana drug abuse resistance
13 education program provided for in 44-2-702, subject to the
14 conditions set forth in 15-30-159. (Subsection (8)
15 terminates on occurrence of contingency--sec. 12, Ch. 808,
16 L. 1991.)"

17 NEW SECTION. Section 2. Effective date -- retroactive
18 applicability. [This act] is effective on passage and
19 approval and applies retroactively, within the meaning of
20 1-2-109, to tax years beginning after December 31, 1992.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0076, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act allowing an individual income tax deduction for premium payments for health care insurance; and providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:

1. Individual income tax revenues are \$330,248,000 in FY94, and \$339,688,000 in FY95.
2. There are 306,000 households in Montana; of these 99,000 are households in which the primary insurance is Medicare (1990 Census of Population, USDC).
3. Of the 207,000 "non-aged" households in Montana, 23,600, or 11.4%, pay an average of \$1,200 annually for health insurance directly out of post-tax wages and salaries (Congressional Research Service).
4. The average effective state income tax rate for these households is 5 percent (MDOR).
5. One-half of these households will not utilize the deduction due to one of the following: 1) they will take the standard deduction instead; 2) they are in a non-taxable status to begin with; 3) they are already itemizing this expense in the current law medical deduction.
6. The Department of Revenue will incur one-time costs for change of tax forms and system programming and ongoing costs for data entry.
7. State medical assistance programs provide medical coverage for low-income individuals. Few individuals at or near the applicable income thresholds and currently uninsured could afford and/or would purchase health insurance due to deductibility of health insurance premiums on state income tax.

FISCAL IMPACT: (continued)

David Lewis 1-8-93
DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

THOMAS E. NELSON, PRIMARY SPONSOR DATE

Fiscal Note for HB0076, as introduced

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FISCAL IMPACT:

Expenditures:

	FY '94			FY '95		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
DoR Data Processing Division:						
FTE	49.60	49.95	0.35	49.60	49.75	0.15
Personal Services	1,515,949	1,525,929	9,980	1,520,006	1,522,236	2,230
Operating Expense	146,395	158,025	11,630	143,406	144,106	700
Equipment	<u>13,578</u>	<u>13,578</u>	<u>0</u>	<u>12,691</u>	<u>12,691</u>	<u>0</u>
Total	1,675,922	1,697,532	21,610	1,676,103	1,679,033	2,930
General Fund (01)	1,046,610	1,068,220	21,610	1,046,902	1,049,832	2,930
Payroll Tax (02)	85,313	85,313	0	86,505	86,505	0
Liquor Funds (06)	<u>543,999</u>	<u>543,999</u>	<u>0</u>	<u>542,696</u>	<u>542,696</u>	<u>0</u>
Total	1,675,922	1,697,532	21,610	1,676,103	1,679,033	2,930

SRS:
Negligible impact.

Revenues:

	FY '94			FY '95		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Individual Income Tax	330,248,000	329,540,000	(708,000)	339,688,000	338,980,000	(708,000)
Net General Fund Impact			(729,610)			(710,930)