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INTRODUCED BY

SENATE BILL NO. 62



A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING AN INDIVIDUAL INCOME TAX DEDUCTION FOR PREMIUM PAYMENTS FOR MEDICAL 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 are labeled or amended, subject to the following exceptions ~~which~~ that are not deductible:

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

(b) state income tax paid;

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

(3) expenses of household and dependent care services as outlined in subsections (3)(a) through (3)(c) and (9) 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 provide self-care because of physical or mental illness; and

(iii) a spouse who is unable to provide self-care because of physical or mental illness;

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

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

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

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

5 (d) the amounts deductible in ~~subsection~~ subsections (3)(a) through (3)(c), ~~are~~ subject to the
6 following limitations:

7 (i) a deduction is allowed under subsection (3)(a) for employment-related expenses incurred during
8 the year only to the extent that the expenses do not exceed \$4,800;

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

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

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

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

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

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

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

22 (ii) if the taxpayer is married during any period of the ~~taxable tax~~ tax year, employment-related expenses
23 incurred are deductible only if:

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

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

27 (iii) an individual legally separated from the individual's spouse under a decree of divorce or of
28 separate maintenance may not be considered as married;

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

1 (v) payment made to a child of the taxpayer who is under 19 years of age at the close of the
2 ~~taxable tax~~ year and payments made to an individual with respect to whom a deduction is allowable under
3 15-30-112(5) are not deductible as employment-related expenses;

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

7 (5) that portion of expenses for organic fertilizer allowed as a deduction under 15-32-303 ~~which~~
8 that was not otherwise deducted in computing taxable income;

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

11 (7) premium payments for;

12 (a) (i) insurance for medical care made directly by the taxpayer; or

13 (ii) made by an employer for the taxpayer that are attributed as income to the taxpayer under federal
14 law; and

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

17 (8) contributions to the Montana drug abuse resistance education program provided for in
18 44-2-702, subject to the conditions set forth in 15-30-159.

19 (9) (a) Subject to the conditions of subsection (3), a taxpayer who operates a family day-care home
20 or a group day-care home, as these terms are defined in 52-2-703, and who cares for the taxpayer's own
21 child and at least one unrelated child in the ordinary course of business may deduct employment-related
22 expenses considered to have been paid for the care of the child.

23 (b) The amount of employment-related expenses considered to have been paid by the taxpayer is
24 equal to the amount that the taxpayer charges for the care of a child of the same age for the same number
25 of hours of care. The employment-related expenses apply regardless of whether any expenses actually have
26 been paid. Employment-related expenses may not exceed the amounts specified in subsection (3)(d)(ii).

27 (c) Only a day-care operator who is licensed and registered as required in 52-2-721 is allowed the
28 deduction under this subsection (9). (Subsection (8) terminates on occurrence of contingency--sec. 12, Ch.
29 808, L. 1991.)"

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STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0062, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

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

ASSUMPTIONS:

State Auditor

1. Tax year (calendar year) 1993 individual health insurance premiums paid were \$129,900,000
2. Tax year 1993 group health insurance premiums paid were \$264,592,986. 10.7% of these premiums were paid by the individuals within the group and the remainder by the employer (Department of Labor & Industry survey).
3. Tax year 1993 Blue Cross administrative services only (ASO) business totalled \$54,000,000. Blue Cross represents 45% of the state market (Blue Cross). 10.7% of these premiums are paid by the individual.
4. Tax year 1993 other Montana ASO represents 55% of the state's market or \$66,000,000. 10.7% of these premiums are paid by individuals.
5. Total tax year 1993 (fiscal year 1994) health insurance premiums attributable to individuals were \$171,040,000.
6. Premium growth will be 4% per year.
7. Estimated health insurance premiums attributable to individuals would be \$177,900,000 in tax year 1994 (FY95), \$185,000,000 tax year 1995 (FY96) and \$192,400,000 in tax year 1996 (FY97).

Department of Revenue

8. This proposal applies to tax years beginning after December 31, 1994.
9. The percent distribution of individually insured households by household income is as follows: under \$10,000, 20.7%; \$10,000 to \$20,000, 27.8 %; \$20,000 to \$30,000, 18.8%; \$30,000 and over, 32.7% (Montana Health Care Authority & MDOR).
10. The average premium for individually insured households is the same regardless of household income (MDOR).
11. No additional households will individually purchase health insurance as a result of this legislation.
12. Total tax year 1995 and 1996 health insurance premiums are distributed among household income classes using the same percent distribution as specified above for the number of households (MDOR).
13. Health insurance premiums are the first dollars spent on health care by a household in a given year (MDOR).

(continued page 2)

1-12-95

DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

11/3/95

STEVE DOHERTY, PRIMARY SPONSOR DATE

Fiscal Note for SB0062, as introduced

SB 62

ASSUMPTIONS: (continued)

14. Health insurance premiums are not deducted under current law because of the 7.5 percent of adjusted gross income floor; all premiums will be deducted by taxpayers under the proposed law (MDOR).
15. The effective tax rates (taxes/total income) for Montana households by income category are as follows: under \$10,000, 0.85%; \$10,000 to \$20,000, 1.6%; \$20,000 to \$30,000, 2.3%, and \$30,000 and above, 3.95% (MDOR).
16. Applying these rates to the distribution of insurance premiums by income group yields the following estimated tax decreases for tax year 1995 (FY 96): under \$10,000, (\$314,500); \$10,000 to \$20,000, (\$817,700); \$20,000 to \$30,000, (\$803,400); \$30,000 and above, (\$2,389,600); for a total of (\$4,325,200) (MDOR).
17. Using the same methodology, the tax decrease estimates for tax year 1996 (FY 97) are: under \$10,000, (\$327,100); \$10,000 to \$20,000, (\$850,400); \$20,000 to \$30,000, (\$835,600); \$30,000 and above, (\$2,485,100); for a total of (\$4,498,200) (MDOR).
18. A new line will need to be added to the individual income tax form, along with associated changes in the Individual Income Tax System at a one time cost of \$7,318, and an ongoing yearly cost of approximately \$2,850.

FISCAL IMPACT:

	<u>FY96</u> <u>Difference</u>	<u>FY97</u> <u>Difference</u>
<u>Expenditures:</u> (Department of Revenue)		
Operating Expenses	\$10,168	\$2,850
<u>Revenues:</u>		
Individual Income Tax	(\$4,325,200)	(\$4,498,200)
<u>Net Impact:</u>		
	<u>FY96</u> <u>Difference</u>	<u>FY97</u> <u>Difference</u>
General Fund	(\$4,335,368)	(\$4,501,050)

TECHNICAL NOTE:

As currently written, this bill would allow premium payments to be deducted in addition to the amount presently allowed. MCA section 15-30-121 (1), lines 13-14 on page 1 of the bill, allows premiums to be deducted subject to a 7.5 percent floor for all medical expenses (current law). The new section 15-30-121 (7a), lines 12-14 on page 3 of the bill, would allow an additional separate deduction, not subject to the 7.5 percent floor.