MISSOURI TAX REVIEW COMMISSION SUBCOMMITTEE
REPORT AND RECOMMENDATION
COVER SHEET

Prepared and Approved by: Banking and Insurance Tax Credit Committee
Submitted to The Missouri Tax Credit Review Commission on: 10/29/10

Name and Statutory Citation of Credit:

Self-Employed Health Insurance Tax Credit, Section 143.119 RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

A self-employed taxpayer who is ineligible for the federal income tax health insurance deduction may take credit against certain state taxes due. The purpose of the credit is to assist self-employed individuals in obtaining health insurance.

2 Cost - Benefit Analysis FY 2009 0.02 FY 2010 0.02	3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in: (a) 2009: 1800 2010: N/A (b) 2009: 1800 2010: N/A

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in $$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: $1,729,167 2010: $652,850 2011: $1,000,000 (estimated)
2012: $1,000,000 (estimated) Est. Amt. Outstanding: $0

5 Recommended Priority Category of Credit (A, B, C, or D): D

6 Recommended Date of Termination if Category D: 2011 Legislative Session

7 Attachments Explaining Reasons to Retain Credit:	8 Attachments Explaining Reasons to Terminate Credit:
9 Attachments Explaining Alternatives for Modification of Credit:	10 Minority Report(s) Attached:

Attachment - **Self-Employed Health Insurance Tax Credit**

The Banking and Insurance Tax Credit Committee recommends that the Self-Employed Health Insurance Tax Credit authorized by Section 143.119 RSMo. be terminated because it provides its greatest incentive and benefit to those individuals who can most afford health insurance while providing the least benefit to those who cannot.

Section 143.119.1 specifies that the credit is equal to ". . . the portion of such taxpayer's federal tax liability incurred due to such taxpayer's inclusion . . . [of health insurance premiums which are non-deductible under Section 162 of the Federal Internal Revenue Code] in federal adjusted gross income."

These tax credits are refundable but are not transferrable.

In 2009, this Credit resulted in redemptions of slightly less than $1,800,000 and the projected redemption amount each year is about $1,800,000 for the next several years. The Tax Credit has no discernable purpose other than allowing persons who are self-employed to reduce the amount of their state income tax (or even receive a refund) based on the amount they paid for health insurance. The Credit is claimed on a form "MO-SHC." The Credit grows as a taxpayer's income increases until the Credit is equal to the highest marginal federal tax rate multiplied times the amount of the health insurance dollars paid by the taxpayer. Beginning in 2011 and absent modifications to the federal tax rates by Congress, the highest marginal rate is 39.6% of federal taxable income earned in excess of $250,000. The mechanism the Credit allows is to permit the highest marginal tax rate to be multiplied times the amount paid for health insurance to produce the Credit. Thus, instead of the first dollars earned at the lowest rate being utilized for the Credit (15% on taxable income below $36,900 for married taxpayers filing joint returns), the highest marginal rate is permitted to be multiplied times the health insurance premiums paid.

The effect of the Credit is to give the greatest amount of dollars to those taxpayers earning the highest incomes.

If the purpose of the Credit is to allow persons who otherwise would not be able to purchase health insurance a credit so as to induce them to purchase health insurance, then the Credit as presently designed accomplishes exactly the opposite result, i.e., those persons with the lowest incomes receive the least benefit and the persons with the highest income receive the most benefits. Presumably the persons with the highest incomes would have health insurance regardless of the Credit, and the small amount of the Credit which is granted in favor of the lower earning taxpayers may not make any different in those taxpayers deciding whether to purchase health insurance.

Accordingly, the Subcommittee has recommended that this Credit be abolished. To the extent it is replaced, it should be in the form of some type of subsidy for low-income bracket taxpayers which may be applied (or refunded) if they purchase health insurance. For example, if this tax credit were modeled on the same system utilized by the property tax "Circuit Breaker" Tax Credit authorized by Section 135.010 RSMo., a full credit amount would be awarded for persons making less than (for example) $14,000 per year and that Credit would phase out as income rose above that amount to a certain predetermined maximum income amount (e.g., $30,000 in the case of the Circuit Breaker Tax Credit). Perhaps larger amounts of income would be appropriate under these circumstances because of the relative expense of health insurance (usually a substantially greater amount than real estate taxes) and the desirability of inducing persons in lower income brackets to acquire health insurance so as to avoid for Missouri the need to pay increased Medicaid costs.

For example, if the credit were applicable to all taxpayers earning less than $50,000 of adjusted gross income in a calendar year, and the credit were 20% of the cost of health insurance premiums paid, but said credit phased out as income rose above $30,000 (such that for each $1,000 above $30,000, the credit reduced 1%), a meaningful credit and inducement to lower income taxpayers to purchase health insurance would exist and a unnecessary benefit to higher income earners would thereby be eliminated.