Montana Department of Revenue

Dan Bucks
Director

Brian Schweitzer
Governor

EXHIBIT 6
DATE 3.23.07
HB 801

465

Memorandum

TO: Representative Gary MacLaren
Jim Standaert

FROM: Barbara Wagner, Tax Policy Analyst

DATE: March 19, 2007

SUBJECT: Cost estimates for HB801 with various eligibility criteria

You requested estimates of the cost of HB801 with various eligibility criteria. As you know, this legislation would create a refundable individual income tax credit for health insurance costs for low-income taxpayers. This memorandum provides estimates if the income eligibility criteria in HB801 were lowered from the current 200% of the federal poverty level and if the credit was targeted to the uninsured. In addition, this memorandum also presents an estimate if the credit was limited to only those experiencing long-term poverty.

Please keep in mind that these estimates are not official and are subject to revision. In addition, the estimates provided in this memo, including those from the official fiscal note, do not include administrative costs. The administrative costs in the official fiscal note for HB801 were $62,540 in FY2008, $54,588 in FY2009, $54,588 in FY2010, and $54,588 in FY2011. These costs may change if the expected number of people claiming the credit changes significantly.

Cost Estimate from Fiscal Note:
The official cost of the credit (without administrative costs) as drafted is shown below:

Cost of the Credit with Eligibility set at 200% of the Poverty Level			
2008	2009	2010	2011
(21,622,399)	(45,438,360)	(46,061,843)	(46,691,688)

Altering the Income Eligibility Criteria with and without Targeting to the Uninsured:
The following estimates present cost estimates for the credit with income eligibility starting below 150%, 100%, and 50% of the federal poverty level. At each income level, a cost estimate is also provided if the credit was limited to those who are currently uninsured. This fiscal note assumes that 45% of the low-income individuals claiming the credit are uninsured; thus, the cost of targeting the credit to the uninsured is 45% of the cost of the credit without targeting. This

percentage is based on the uninsured rates reported in "Final Report: Household Survey and Employer Survey Findings about Health Insurance Coverage in Montana," a study completed through federal grant funding at the Montana Department of Health and Human Services.

In general, national research has indicated that tax credits to encourage the purchase of health insurance are more efficient and effective if the credit is targeted to unemployed individuals. However, targeting makes the credit more difficult to administer because it is difficult to determine which individuals were previously covered by insurance. Therefore, many credits are open to all individuals, but can only be taken for a few years. The first years of the credit would be more costly because all currently-insured taxpayers could claim the credit; however, in later years only newly-insured individuals could claim the credit. Depending on how the credit is targeted and the number of years the credit is allowed, the cost estimate could change significantly.

Cost Estimate with Eligibility Criteria at 150% of the Poverty Level:
The following estimate shows the cost if the credit was only available to taxpayers with gross household income at or less than 150% of the federal poverty level. As you can see, the cost would decrease by approximately $15 million each year.

Cost of the Credit with Eligibility set at 150% of the Poverty Level				
	2008	2009	2010	2011
All Taxpayers	(14,745,093)	(30,986,054)	(31,411,230)	(31,840,745)
Uninsured Taxpayers	(6,635,292)	(13,943,724)	(14,135,054)	(14,328,335)

Cost Estimate with Eligibility Criteria at 100% of the Poverty Level:
The following estimate shows the cost if the credit was only available to taxpayers with gross household income at or less than 100% of the federal poverty level. As you can see, the cost would again decrease by approximately $15 million each year.

Cost of the Credit with Eligibility set at 100% of the Poverty Level				
	2008	2009	2010	2011
All Taxpayers	(7,780,844)	(16,351,043)	(16,575,404)	(16,802,055)
Uninsured Taxpayers	(3,501,380)	(7,357,969)	(7,458,932)	(7,560,925)

Cost Estimate with Eligibility Criteria at 50% of the Poverty Level:
The following estimate shows the cost if the credit was only available to taxpayers with gross household income at or less than 50% of the federal poverty level.

Cost of the Credit with Eligibility set at 50% of the Poverty Level				
	2008	2009	2010	2011
All Taxpayers	(3,528,346)	(7,414,638)	(7,516,378)	(7,619,157)
Uninsured Taxpayers	(1,587,756)	(3,336,587)	(3,382,370)	(3,428,620)

Excluding Mid-to-High-Income Individuals:
One difficulty is that the cost estimates are based on the amount of medical insurance premiums deductions taken on the 2005 tax forms. Because low-income individuals are more likely to take the standard deduction rather than itemize, these estimates include a number of individuals that would be considered middle-to-high-income by many standards, but who have reported negative incomes in the 2005 tax year. Therefore, the following tables present estimates if the credit was limited to those with incomes over -$500.

Cost of the Credit with Eligibility set at 150% of the Poverty Level and above -$500				
	2008	2009	2010	2011
All Taxpayers	(13,189,457)	(27,716,965)	(28,097,284)	(28,481,484)
Uninsured Taxpayers	(5,935,256)	(12,472,634)	(12,643,778)	(12,816,668)

Cost of the Credit with Eligibility set at 100% of the Poverty Level and above -$500				
	2008	2009	2010	2011
All Taxpayers	(6,225,208)	(13,081,954)	(13,261,458)	(13,442,794)
Uninsured Taxpayers	(2,801,344)	(5,886,879)	(5,967,656)	(6,049,257)

Cost of the Credit with Eligibility set at 50% of the Poverty Level and above -$500				
	2008	2009	2010	2011
All Taxpayers	(1,972,711)	(4,145,550)	(4,202,434)	(4,259,897)
Uninsured Taxpayers	(887,720)	(1,865,498)	(1,891,095)	(1,916,954)

I hope this information has been helpful. Please contact me at 406-444-3528 or at bwagner@mt.gov with any questions.

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