

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 28, 2003

TO: Honorable John T. Smithee, Chair, House Committee on Insurance

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB1128 by Farrar (Relating to the premium tax on certain life, health, and accident insurance policies.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1128, As Introduced: a negative impact of (\$4,666,666) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$0
2005	(\$4,666,666)
2006	(\$7,000,000)
2007	(\$7,000,000)
2008	(\$7,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue (Loss) from <i>FOUNDATION SCHOOL FUND</i> 193
2004	\$0	\$0
2005	(\$3,500,000)	(\$1,166,666)
2006	(\$5,250,000)	(\$1,750,000)
2007	(\$5,250,000)	(\$1,750,000)
2008	(\$5,250,000)	(\$1,750,000)

Fiscal Analysis

This bill would create an insurance premium tax exemption for certain coverage provided to employees of a political subdivision of the state.

The exemption would apply to premiums paid on group life, accident, and health policies in which the group covered by the policy consists of a single nonprofit trust established to provide coverage primarily for employees of political subdivisions of the state other than municipalities, counties, and hospital districts.

Methodology

Under current law, a premium tax exemption applies to premiums paid on group life, accident, and

health policies in which the group covered by the policy consists of a single nonprofit trust established to provide coverage primarily for employees of municipalities, counties, and hospital districts. This bill would extend the exemption to employees of other political subdivisions. Chief among the other political subdivisions that would fall under the exemption would be school districts and special purpose districts.

According to the Teacher Retirement System of Texas school district health insurance premiums for the 2001-02 school year (employee and district share) totaled approximately \$1.6 billion. Of this amount, the Comptroller's staff estimates that perhaps one-quarter to one-third may be through licensed insurers, either as fully-insured plans or through stop-loss coverage purchased by self-insured plans, implying a potential annual premium tax loss of between \$7 and \$9 million. Since the exemption would not become effective until January 1, 2004, the loss for fiscal year 2005 would be less. The annual amount would vary dependent upon the extent to which currently taxable coverage would qualify for the proposed exemption or the extent to which school districts would establish single nonprofit trusts to convert currently taxable coverage to qualify for the proposed exemption. In addition to these amounts, additional premium tax losses may be incurred for premiums paid by special purpose districts and other entities that might qualify under the provisions of this bill.

Local Government Impact

Qualifying school districts and special districts may realize savings for insurance costs.

Source Agencies: 304 Comptroller of Public Accounts, 454 Department of Insurance

LBB Staff: JK, JO, JRO, WP, DLBe