

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 2, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB865 by Davis, John (Relating to removing the single nonprofit trust requirement for certain insurance premium tax exemptions; affecting certain taxes.), **As Introduced**

To the extent that the bill would increase the amount of premium that is exempt from taxation, the bill would have an indeterminate loss to the State through decreased premium tax revenue.

The bill would amend Chapters 222, 257 and 258 of the Insurance Code, relating to removing the single nonprofit trust requirement for certain insurance premium and maintenance tax exemptions. The bill would extend the premium and maintenance tax exemption, currently allowed for group health, accident, and life insurance coverage for certain government entity employees that is offered through single nonprofit trusts, to apply to all premiums paid for that insurance coverage by those government entities.

The bill would make a conforming change to Chapter 157 of the Local Government Code.

The bill would take effect September 1, 2013.

Life, accident, and health insurance premiums are taxed at a rate of 1.75 percent. In tax year 2011, \$155,272,000 of single nonprofit trust premium for coverage of municipalities, counties, hospital districts, and certain hospitals was exempt from taxation. To the extent that this bill would increase the amount of premium that is exempt from taxation, premium tax revenue would decrease. The amount of that decrease is unknown.

However, for illustrative purposes: according to the Kaiser Family Foundation, in 2011 the average single premium per enrolled Texas employee was approximately \$5,200. So, the \$155,272,000 of single nonprofit trust premium could have provided coverage for approximately 30,000 employees. According to the most recent data (March 2013) from the Texas Workforce Commission, total non-educational local government employment was 419,300. Assuming all of these employees have health insurance, total annual local government health insurance premium should be approximately \$2.18 billion. Subtracting the single nonprofit trust premium leaves \$2.03 billion of taxable premium. The insurance premium tax rate is 1.75 percent, so tax revenue would be approximately \$35.5 million per year. Due to the way the tax is computed (i.e., on the prior year's liability) there would be no fiscal implication before fiscal 2015. Under the changes in law made by this bill, that revenue would no longer be collected. Note that the preceding analysis did not include any additional premium for the covered family members of covered employees.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

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

LBB Staff: UP, AG, SD