LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 35** HLS 162ES 22
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 8, 2016 7:08 PM **Author:** ANDERS
Dept./Agy.: Insurance
Subject: Premium tax **Analyst:** Shawn Hotstream

TAX/INSURANCE PREMIUM EG +$139,500,000 SD RV See Note
Establishes the annual minimum tax on health maintenance organizations (Item #5)

Current law provides for a 2.25% annual tax on insurance premiums (life, accident, health, or service insurance).

Proposed law increases the annual tax from 2.25% to 5.5% for health maintenance organizations, including the Louisiana partnerships.

Effective upon governor's signature.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	$15,500,000	$12,400,000	$12,400,000	$12,400,000	$12,400,000	**$65,100,000**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$139,500,000	$111,600,000	$111,600,000	$111,600,000	$111,600,000	**$585,900,000**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$155,000,000**	**$124,000,000**	**$124,000,000**	**$124,000,000**	**$124,000,000**	**$651,000,000**

EXPENDITURE EXPLANATION

Approximately 90% of the additional revenues collected as a result of this measure are anticipated to be deposited into the Medical Assistance Trust Fund (MATF) to be used as a state match source for federal matching funds for Medicaid provider payments. Current law provides that taxes collected from health care premium assessments paid by Medicaid enrolled managed care organizations shall be deposited into the Medical Assistance Trust Fund. In current practice, DHH reimburses MCO's through rates of the amount of the tax assessed to offset the cost of the tax.

REVENUE EXPLANATION

Currently, the Department of Insurance collects a 2.25% health insurance premium tax assessed on health maintenance organizations (HMO's), which includes Medicaid managed care organizations (MCO's). Proposed law increases the annual tax by 3.25% from 2.25% to 5.5%. The tax is levied on a calendar year's gross annual premium receipts on HMO's, and actual fiscal year collections are based on the previous calendar/premium year's tax liability. The fiscal note assumes the tax increase will apply for the calendar year 2016. Based on 2015 HMO and MCO insurance premiums ($4.9 B) provided by the Department of Insurance, net state general fund revenues are projected to increase by approximately $155 M in FY 17, and $124 M in future fiscal years. FY 17 receipts are based on payments over the course of the entire fiscal year plus the payment in the spring of 2017 of increased tax associated with the first half of 2016. From FY18 and beyond receipts reflect tax increase received for the entire fiscal year.

Note: The additional revenues reflected in the table above are based on 2015 premiums provided by the DOI, and do not contemplate additional premiums in FY 17 and future years as a result of Medicaid expansion being implemented in the state in FY 17. Expanding Medicaid for certain individuals up to 138% of the federal poverty level under the Affordable Care Act will significantly broaden the taxable base for the purpose of this tax, as approximately 375,000 new Medicaid enrollees are anticipated to be placed in Medicaid managed care in FY 17. By FY 21, DHH projects roughly 500,000 new enrollees in Medicaid. The effect of additional premiums associated with medicaid expansion at the new tax is projected to generate an additional $34 M in FY 17, and approximately $86 M in future years. These additional amounts will likely be considered by the REC at its next meeting. Even if this bill is not enacted, it is likely that the effects of medicaid expansion at the existing 2.25% tax rate will be considered, adding an additional $23.8 million to premium tax receipts in FY17 and $59.6 million in FY18 and beyond.

In addition, the bill repeals statute that provides for these insurers to pay premium tax in lieu of corporate income and franchise tax. This will subject these insurers to corporate tax. However, corporate taxes can be offset by the amount of any premium tax paid.

Senate — Dual Referral Rules — House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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