

LEGISLATIVE FISCAL OFFICE Fiscal Note

Fiscal Note On: **HB**

1B 35 H

Author: ANDERS

HLS 162ES

22

Bill Text Version: **REENGROSSED** Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Dept./Agy.: Insurance

Date: June 10, 2016

Subject: Premium tax Analyst: Shawn Hotstream

TAX/INSURANCE PREMIUM

RE +\$168,300,000 SD RV See Note

Page 1 of 1

Establishes the annual minimum tax on health maintenance organizations (Item #5)

3:48 PM

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

<u>Proposed law</u> 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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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.	\$18,700,000	\$12,400,000	\$12,400,000	\$12,400,000	\$12,400,000	\$68,300,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$168,300,000	\$111,600,000	\$111,600,000	\$111,600,000	\$111,600,000	\$614,700,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$187,000,000	\$124,000,000	\$124,000,000	\$124,000,000	\$124,000,000	\$683,000,000

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 revenues are projected to increase by approximately \$187 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 all of 2016. Additionally, further information provided by the DOI indicates additional receipts from a payment made in July (FY 18) will be credited back to FY 17. From FY18 and beyond receipts normalize to reflect the tax increase received for each 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. To the extent this bill passes, these additional amounts will likely be considered by the REC at its next meeting.

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. The Department of Revenue indicates that there is no return data available to assess the net corporate tax consequences of this repeal, but it will treat these insurers the same as all other insurers with respect to these two taxes.

Senate [Dual Referral Rules Ho	ouse		Sugar V. allect	
13.5.1 >= \$1	.00,000 Annual Fiscal Cost {S&H}		$6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}$	73	
	00,000 Annual Tax or Fee			Gregory V. Albrecht	
	nange {S&H}		or a Net Fee Decrease {S}	Chief Economist	