HB14-1106

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 14-0485	**Date:**	February 5, 2014
Prime Sponsor(s):	Rep. Nordberg; Wright	**Bill Status:**	House SVMA
		Fiscal Analyst:	Greg Sobetski (303-866-4105)

SHORT TITLE: TAX DEDUCTION FOR AFFORDABLE CARE ACT PENALTY

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016	FY 2016-2017
State Revenue	**($2,090,271)**	**($6,426,582)**	**($8,538,968)**
Revenue Change			
General Fund	($2,090,271)	($6,426,582)	($8,538,968)
State Expenditures		**$60,685**	**$8,488**
General Fund		$58,203	$7,155
Centrally Appropriated Costs**		$2,482	$1,333
FTE Position Change		0.3	0.2
Appropriation Required: Department of Revenue - $58,203 (FY 2015-16)			

* *This summary shows changes from current law under the bill for each fiscal year. Parentheses indicate a decrease in funds.*

** *These costs are not included in the bill's appropriation. See the State Expenditures section for more information.*

Summary of Legislation

This bill creates an individual income tax deduction to offset penalties paid by taxpayers under the provisions of the federal Patient Protection and Affordable Care Act. When calculating his or her Colorado taxable income for a given tax year beginning in 2015, a taxpayer may deduct from his or her federal taxable income an amount equal to the penalties he or she paid under the Affordable Care Act for a month during that tax year.

Background

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act (PPACA). Effective March 31, 2014, the law requires individuals to purchase insurance if they cannot enroll or choose not to enroll in a government or employer-sponsored program. Some groups are exempt from this mandate, including:

- individuals for whom the cost of health insurance premiums exceeds eight percent of household income;
- individuals whose household income is below the minimum threshold for filing a federal tax return;
- individuals for whom paying for health insurance would cause "hardship," generally interpreted as individuals with incomes below the federal poverty level;
- Native Americans eligible to receive care from the Indian Health Service; and
- individuals who object to health insurance on religious grounds.

Individuals and families that do not obtain or retain qualifying healthcare coverage and are not exempt from the mandate will be required to pay a penalty when submitting their federal income tax returns. The amount of the penalty is equal to the greater of a fixed dollar amount or a percentage of the household's taxable income. The value of the fixed dollar amount is calculated by adding a fixed penalty factor for each adult in the household and a fixed penalty factor for each child under the age of 18. The maximum amount of the fixed penalty is capped, but a household whose percentage penalty exceeds the fixed penalty cap must pay the full amount of its percentage penalty. Both the fixed penalty and the percentage penalty grow until reaching full implementation in tax year 2016. The schedule for implementation of the PPACA penalties is shown in Table 1.

Table 1. Schedule for Implementation of Penalties for Failing to Carry Qualifying Health Insurance under the Affordable Care Act*

	2014	2015	2016
Percentage penalty	1.0%	2.0%	2.5%
Adult factor for fixed penalty	$95	$325	$695**
Child factor for fixed penalty	$47.50	$162.50	$347.50**
Cap on fixed penalty	$285	$975	$2,085**

* *Penalties are equal to the greater of a percentage of taxable household income or a fixed penalty, calculated by adding factors for each adult and each child in a household. The maximum amount of the fixed penalty is capped. The percentage penalty must be paid if it exceeds the fixed cap.*
** *Fixed penalties after 2016 will increase subject to cost of living adjustments.*

The bill creates a state individual income tax deduction equal to the penalty paid under the PPACA beginning in tax year 2015.[1] A taxpayer's income tax liability will be reduced by an amount equal to 4.63 percent of the value of the deduction.

State Revenue

General Fund revenue will be reduced by $2,090,271 in FY 2014-15, $6,426,582 in FY 2015-16, and $8,538,968 in FY 2016-17. These estimates were derived from statistics on the number of uninsured Coloradans, estimates of the number of uninsured individuals exempt from the insurance mandate, and data on enrollments in Medicaid and the individual heath care plans available at the Connect for Health Colorado state health insurance exchange. The estimates of revenue loss assume that all uninsured individuals will be penalized according to the fixed penalty rather than the percentage penalty. These estimates are therefore intended to show the minimum amount of revenue loss. The amount by which revenue is reduced in FY 2014-15 will be equal to half of the reduction in revenue on returns filed for tax year 2015.

[1]Under TABOR, the state may not change its definition of taxable income during the current tax year. See Colo. Const. art. X, § 20 (8) (a).

Assumptions. For the purposes of this fiscal note, the following are assumed:

- Approximately 705,000 Coloradans were uninsured in 2012, according to data from the United States Census Bureau. Of these, 22 percent are assumed to be exempt from the individual insurance mandate because their incomes are below the federal poverty level.

- Between October 1, 2013, and January 1, 2015, 249,000 Coloradans will enroll in either Medicaid or a private health insurance plan available through the Connect for Health Colorado exchange. This estimate is based on 165,000 total enrollees between October 1, 2013, and January 15, 2014.

- Children will represent 15.4 percent of the uninsured population in 2015 and 2016. This estimate is based on United States Census Bureau demographic research conducted on uninsured individuals in 2011, the most recent year for which statistics are available.

- The federal government will penalize 254,700 adults and 46,300 children in calendar year 2015 for failing to carry qualifying health insurance under the PPACA. These numbers will fall to 247,100 adults and 44,900 children in 2016 as more individuals enroll in insurance plans. It is assumed that all individuals penalized will pay the fixed penalty rather than the percentage penalty.

State Expenditures

General Fund expenditures will increase by $60,685 and 0.3 FTE in FY 2015-16 and by $8,488 and 0.2 FTE in FY 2016-17. The Department of Revenue will incur a one-time programming cost of $44,290 in FY 2015-16 for the programming and testing of the new credit in the department's GenTax and Colorado Integrated Tax Architecture (CITA) computer systems. The department requires these expenditures in order to add the deduction to the relevant tax forms and ensure its ability to process the deduction when it is claimed. Additionally, the department will employ 0.3 additional FTE to process phone calls and information requests regarding the new deduction. Table 3 shows anticipated state expenditures under House Bill 14-1106.

Table 3. Expenditures Under HB14-1106

Cost Components	FY 2015-16	FY 2016-17
Personal Services	$13,913	$7,155
FTE - Tax Examiner I	0.3	0.2
Operating Expenses and Capital Outlay Costs	$44,290	$0
Centrally Appropriated Costs*	$2,482	$1,333
TOTAL	**$60,685**	**$8,488**

** Centrally appropriated costs are not included in the bill's appropriation.*

***Centrally appropriated costs**.* Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 4.

Table 4. Centrally Appropriated Costs Under HB14-1106*		
Cost Components	**FY 2015-16**	**FY 2016-17**
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$1,515	$779
Supplemental Employee Retirement Payments	$967	$554
TOTAL	**$2,482**	**$1,333**

**More information is available at: http://colorado.gov/fiscalnotes*

Effective Date

The bill takes effect August 6, 2014, if the General Assembly adjourns on May 7, 2014, as scheduled, and no referendum petition is filed. The deduction in the bill will be available on tax returns beginning in tax year 2015.

State Appropriations

No appropriation is required for FY 2014-15. For FY 2015-16, the Department of Revenue requires a General Fund appropriation of $58,203 and 0.3 FTE.

State and Local Government Contacts

Health Care Policy & Financing
Personnel & Administration
Law
Revenue