



General Assembly

February Session, 2006

Raised Bill No.

428

LCO No. 2152



Referred to Committee on

Introduced by: **INSURANCE & REAL ESTATE**
(INS)

AN ACT ESTABLISHING A TAX CREDIT FOR SMALL EMPLOYERS WHO PROVIDE HEALTH INSURANCE FOR THEIR EMPLOYEES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2006, and applicable to income years*
2 *commencing on or after January 1, 2006*) There shall be allowed as a
3 credit against the tax imposed pursuant to chapter 208 of the general
4 statutes in any income year on a small employer, as defined in section
5 38a-564 of the 2006 supplement to the general statutes, who has
6 provided health insurance for its employees for a period of three
7 consecutive years an amount equal to the amount paid by such small
8 employer for health insurance for its employees. Such credit shall be
9 allowed upon the purchase of any special health care plan, as defined
10 in section 38a-564 of the 2006 supplement to the general statutes, small
11 employer health care health plan, as defined in said section 38a-564,
12 high deductible health plan, as that term is used in subsection (f) of
13 section 38a-520 of the general statutes, or any health insurance
14 procured pursuant to section 5-259 of the general statutes.

15 Sec. 2. (NEW) (*Effective July 1, 2006, and applicable to income years*
16 *commencing on or after January 1, 2006*) There shall be allowed as a

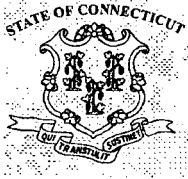
17 credit against the tax imposed pursuant to chapter 229 of the general
18 statutes in any income year on a small employer, as defined in section
19 38a-564 of the 2006 supplement to the general statutes, who has
20 provided health insurance for its employees for a period of three
21 consecutive years an amount equal to the amount paid by such small
22 employer for health insurance for its employees. Such credit shall be
23 allowed upon the purchase of any special health care plan, as defined
24 in section 38a-564 of the 2006 supplement to the general statutes, small
25 employer health care health plan, as defined in said section 38a-564,
26 high deductible health plan, as that term is used in subsection (f) of
27 section 38a-520 of the general statutes, or any health insurance
28 procured pursuant to section 5-259 of the general statutes.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2006, and applicable to income years commencing on or after January 1, 2006</i>	New section
Sec. 2	<i>July 1, 2006, and applicable to income years commencing on or after January 1, 2006</i>	New section

Statement of Purpose:

To establish a tax credit against the corporation business tax and the income tax for the amount spent by small employers to purchase health insurance for its employees.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]



Senate

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General Assembly

File No. 36

February Session, 2006

Substitute Senate Bill No. 428

Senate, March 20, 2006

The Committee on Insurance and Real Estate reported through SEN. CRISCO of the 17th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT ESTABLISHING A TAX CREDIT FOR SMALL EMPLOYERS WHO PROVIDE HEALTH INSURANCE FOR THEIR EMPLOYEES.

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3 credit against the tax imposed pursuant to chapter 208 of the general
4 statutes in any income year on a small employer, as defined in section
5 38a-564 of the 2006 supplement to the general statutes, an amount
6 equal to the amount paid by such small employer for health insurance
7 for its employees in the income year, provided such small employer
8 has provided health insurance for its employees for a period of three
9 consecutive years. Such credit shall be allowed upon the purchase of
10 any special health care plan, as defined in section 38a-564 of the 2006
11 supplement to the general statutes, small employer health care health
12 plan, as defined in said section 38a-564, high deductible health plan, as
13 that term is used in subsection (f) of section 38a-520 of the general
14 statutes, or any health insurance procured pursuant to section 5-259 of

15 the general statutes.

16 Sec. 2. (NEW) (*Effective July 1, 2006, and applicable to income years*
 17 *commencing on or after January 1, 2006*) There shall be allowed as a
 18 credit against the tax imposed pursuant to chapter 229 of the general
 19 statutes in any income year on a small employer, as defined in section
 20 38a-564 of the 2006 supplement to the general statutes, an amount
 21 equal to the amount paid by such small employer for health insurance
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 29 statutes, or any health insurance procured pursuant to section 5-259 of
 30 the general statutes.

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Statement of Legislative Commissioners:

The language in the first sentence in sections 1 and 2 was restated for consistency with the general statutes.

INS Joint Favorable Subst.

17067

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 07 \$	FY 08 \$
Department of Revenue Services	GF - Revenue Loss	Significant	Significant
Department of Revenue Services	GF - Cost	140,000	None

Note: GF=General Fund; These figures have been adjusted for inflation at a rate of 3%

Municipal Impact: None

Explanation

The bill is anticipated to result in a significant (greater than \$10 million/yr) revenue loss to the personal income tax and corporation business tax. A more precise estimate cannot be determined since data is not available on the tax liability of small employers but it is unlikely they would have sufficient liability to take credit for 100% of their health care costs. An estimate of health care costs by small employers using data from the US Census Bureau¹ and a state survey completed by the Office of Health Care Access (OCHA)² suggests that costs could exceed \$700 million per year.

The bill is also anticipated to result in a one-time cost of \$140,000 in FY 07 to the Department of Revenue Services for programming costs to incorporate the tax credit into the Department's integrated tax administration system.

¹ According to US Census Bureau, there are approximately 412,000 paid employees employed at firms with less than 50 employees in the state of Connecticut.

² A 2004 small employer health survey by the Office of Health Care Access (OCHA) reported that 66% of small employers offer their employees health insurance, 80% of employees are eligible for their employer's coverage, 75% of eligible employees enroll in their employer sponsored coverage, and employers paid for most of the costs for employee only coverage and two-thirds of the cost of dependent coverage.

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SECTION

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

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OLR Bill Analysis
sSB 428

AN ACT ESTABLISHING A TAX CREDIT FOR SMALL EMPLOYERS WHO PROVIDE HEALTH INSURANCE FOR THEIR EMPLOYEES.

SUMMARY:

This bill establishes a corporate tax credit and an income tax credit for a small employer who has provided health insurance for its employees for three consecutive years (although the bill does not indicate when those three years had to occur). The credit in any income year is equal to the amount the employer paid for its employees' health insurance in the income year.

EFFECTIVE DATE: July 1, 2006, and applicable to income years beginning on or after January 1, 2006.

SMALL EMPLOYER HEALTH INSURANCE TAX CREDIT

Health Insurance

The following are considered "health insurance" for purposes of the tax credit: (1) small employer health care plans; (2) high deductible health plans designed to be compatible with health savings accounts, as permitted by federal law; (3) health insurance plans obtained through the Municipal Employee Health Insurance Program (MEHIP); and (4) special health care plans for previously uninsured small employers, as established by the Connecticut Small Employer Health Reinsurance Pool or the Health Reinsurance Association.

Small Employer and Employee Defined

A "small employer" is an employer in business for at least three consecutive months of the preceding 12 months with one to 50 eligible employees. An "eligible employee" is one who works full time and at least 30 hours a week.

A small employer includes a self-employed person. It does not include a private school obtaining health insurance through an association of private schools or the following when participating in MEHIP: (1) municipalities; (2) nonprofit organizations, unless the comptroller and the Office of Policy and Management secretary make a written request to the insurance commissioner to treat them as small employers; (3) personal care assistants' associations; and (4) community action agencies.

BACKGROUND

MEHIP

MEHIP is a group health insurance program for municipal employees sponsored by the Comptroller's Office and established by law. Subsequent laws expanded MEHIP eligibility to (1) nonprofit community action agencies, (2) state-contracted nonprofit corporations, (3) regional emergency telecommunications centers and tourism districts, and (4) small employers.

By law, participation in MEHIP must be voluntary. In addition, MEHIP must not affect the rates the state pays for state employee health plans, and participants must pay all administration costs.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 14 Nay 1 (03/09/2006)