



**House
Legislative
Analysis
Section**

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**INCOME TAX DEDUCTION:
HEALTH INSURANCE PREMIUMS**

**House Bill 4152 (Substitute H-4)
First Analysis (6-26-97)**

**Sponsor: Rep. Nancy Quarles
Committee: Tax Policy**

THE APPARENT PROBLEM:

One element of a package of bills introduced by House Democrats known as the Quality of Life package is a state income tax deduction for health insurance premiums. Such a deduction, say proponents, will help middle class families and self-employed individuals that must purchase their own health insurance without relying on a government program or putting a mandate on businesses. Small business associations have said affordable health care is a top priority for them. Moreover, proponents say such a deduction could help in welfare reform efforts, as people move from government-funded programs, by making private health insurance more affordable. Advocates say health insurance has become a necessity for families and assistance should be provided to those working people whose jobs do not carry comprehensive health insurance as a benefit.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to provide certain taxpayers a deduction from taxable income for premiums paid by the taxpayer in the tax year to obtain health care benefits. The deduction would apply for the 1997 tax year and each tax year thereafter. The premiums could be deducted to the extent that they were not deducted by the taxpayer on his or her federal tax return for the tax year.

To qualify, a taxpayer's adjusted gross income on an annual return on which such a deduction was claimed would have to be \$100,000 or less. Further, a taxpayer could not be covered by any health coverage policy, certificate, or contract, or self-funded plan other than the health care benefits purchased by the premiums being deducted; would have to contract individually for the health care benefits; could not have a medical care savings account under the Medical Care Savings Account Act; and would have to pay the premiums without any contribution from any other source.

The bill would apply to premiums for coverage under a dental, hospital, surgical, or medical expense incurred policy or certificate issued by a commercial health

insurer; for dental, hospital, surgical, or medical benefits under a certificate issued by Blue Cross and Blue Shield of Michigan; for health maintenance services under a contract with a health maintenance organization (HMO); and for dental benefits under a contract issued by a nonprofit dental care corporation (such as Delta Dental).

MCL 206.30

FISCAL IMPLICATIONS:

The House Fiscal Agency has estimated that the bill would reduce revenues by about \$18 million to \$20 million per year. (Fiscal Note dated 6-17-97)

ARGUMENTS:

For:

The bill will provide tax relief to people who must purchase their own health insurance, notably including the self-employed. It provides a measure of assistance to people who do not have health benefits provided to them by an employer or from some other source. This will contribute to making health insurance and health care more affordable. Representatives of the National Federation of Independent Business have said that affordable health care ranked as the number one concern for small business owners in its most recent research. This bill is, from their perspective, a superior alternative to government run health insurance programs. The bill is targeted at people with adjusted gross incomes of \$100,000 or less. It does not cover co-pays and deductibles and would not permit double dipping with the federal deduction for health premiums. Only premiums not used for a federal deduction would count for state tax purposes.

Response:

It ought to be noted that deducting the cost of premiums from taxable income means that the taxpayer will, essentially, reduce the cost of premiums by slightly over four percent (since the state tax rate is 4.4 percent). While this will no doubt be of benefit to people

House Bill 4152 (6-26-97)

purchasing their own health insurance, it is questionable whether it is sufficient to make insurance affordable for people who cannot now afford it.

Against:

The bill has significant revenue implications. Also, Department of Treasury officials say that it appears to permit premiums to be deducted by a taxpayer regardless of who the insurance is for. In other words, the bill does not require that the taxpayer be paying premiums solely for himself or herself. Treasury officials say there is already a 30 percent federal deduction for health care premiums for the self-employed and participants in Chapter S corporations.

POSITIONS:

The NFIB/Michigan supports the bill. (6-25-97)

The Small Business Association of Michigan supports the bill. (6-25-97)

The Department of Treasury is opposed to the bill. (6-25-97)

The Michigan Education Association has indicated its opposition to the bill. (6-18-97)

Analyst: C. Couch

~~This analysis was prepared by staff of the House of Representatives~~
their deliberations, and does not constitute an official statement of legislative intent.