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H.B. 443
134th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Rep. Koehler

Local Impact Statement Procedure Required: Yes

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Highlights

- Refundable tax credits authorized under the bill would decrease the aggregate tax receipts from the commercial activity tax (CAT), personal income tax (PIT), financial institutions tax (FIT), domestic and foreign insurance premium taxes, public utility excise tax (PUET), and petroleum activity tax (PAT), likely beginning in FY 2023, by very roughly $107 million per year.
- The GRF would bear most of any revenue loss. Under current law, all revenue from PIT, FIT, domestic and foreign insurance premium taxes, and PUET are deposited into the GRF. In addition, 85% of CAT receipts are deposited into the GRF, 13% are deposited into the School District Tangible Property Tax Replacement Fund (Fund 7047), and 2% into the Local Government Tangible Property Tax Replacement Fund (Fund 7081). Any PAT revenue from sales of motor fuel not used to propel vehicles on public highways is transferred to the GRF, while the bulk of PAT revenue is ultimately deposited into the Petroleum Activity Tax Public Highways Fund.[1]
- Any reduction in total GRF tax receipts would also reduce the amount distributed to the Local Government Fund (LGF, 1.66%) and Public Library Fund (PLF, 1.66%).[2] Any reduction to the LGF and PLF would decrease distributions from the funds to counties, municipalities, townships, public libraries, and other political subdivisions in the state.

[1] See below for a more detailed accounting of the allocation of PAT revenue.

[2] H.B. 110 of the 134th General Assembly temporarily increases the percentage of GRF tax revenue that will be allocated to the PLF during FY 2022 and FY 2023 from 1.66% under codified law to 1.70%.

Detailed Analysis

The bill authorizes a refundable credit for employer health benefit plan[3] premiums paid by a taxpayer that purchases a group health benefit plan that provides coverage for basic health care services to one or more of the taxpayer's employees who are Ohio residents. The credit can be claimed against the commercial activity tax (CAT), personal income tax (PIT), financial institutions tax (FIT), domestic and foreign insurance premium taxes, public utility excise tax (PUET), and petroleum activity tax (PAT). The credit equals 1.3% of the portion of the premiums paid by the taxpayer during the tax period to purchase such a plan for the taxpayer's employees who are residents. The credit applies for premiums paid on or after the bill's 90-day effective date. The tax credit cannot be claimed for coverage provided through a self-insurance plan or premiums paid for nonresident employees.

Fiscal effect

The estimated revenue loss from the proposed refundable tax credit would be very roughly $107 million in FY 2023, assuming the credit had a full-year effect that year for each of the taxes against which it may be claimed. The estimated revenue loss is likely to increase in future years by 4% per year, or perhaps more. The estimate is calculated based on data and assumptions below. The actual revenue loss would depend on actual premiums paid by private employers, the number of employees enrolled in employer-based insurance coverage and type of coverage elected by such employees, and the number of employers that claimed the tax credit.

According to U.S. Bureau of Labor Statistics data, Ohio's total private sector employment was about 4.5 million in 2020. Based on 2019 American Community Survey data, published by the U.S. Census Bureau, 59.1% of Ohioans received their health insurance coverage through their employer in 2019. Based on these figures, the number of Ohioans who received health insurance coverage through their private sector employer would be about 2.7 million (i.e., 4.5 million x 59.1%). In addition, according to data from a Kaiser Family Foundation (KFF) report,[4] on average employers in Ohio contributed $5,406, $10,005, and $15,182 for one year's coverage in 2020 for each employee enrolled in single coverage, employee-plus-one coverage, and family coverage, respectively. The estimate assumed 51.3% of 2.7 million covered employees under employer-based insurance in Ohio choose single coverage, 18.9% choose employee-plus-one coverage, and 29.8% choose family coverage; this assumed breakdown is based on 2013 nationwide data of private sector employees who were enrolled in employer-based health insurance, by coverage category.[5]

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[3] The bill specifies that "health benefit plan" has the same meaning as in section 3922.01 of the Revised Code.

[4] Source: *KFF Custom State Report* of health insurance premiums and deductibles.

[5] Crimmel, B.L., *Selection and Costs for Employer-Sponsored Health Insurance in the Private Sector, 2013 versus 2012*. Statistical Brief #445, July 2014. Agency for Healthcare Research and Quality, Rockville, MD. According to the Brief, "health insurance can be broken into three broad categories – single coverage (employee only), employee-plus-one coverage (employee, plus only one family member), and family coverage (employee, plus one or more family members). When offered for the same health insurance

Using the figures from the previous paragraph, employers spent roughly $24.8 billion on health benefit coverage for Ohio employees in 2020 (i.e., 2.7 million x ((51.3% x $5,406) + (18.9% x $10,005) + (29.8% x $15,182))). Multiplying that figure by 1.3% yields a rough estimate that the refundable tax credit would have reduced state tax revenue up to roughly $317 million that year, had the credit been in effect then and before accounting for the fact that self-insured plans are not eligible for the credit. Nationwide data from the KFF Employer Health Benefits 2021 Annual Survey[6] indicate that the average annual premiums for single and family coverage under employer-based insurance rose by 4% from 2020 to 2021. In addition, according to National Health Expenditure Projections 2019-2028,[7] annual growth rates of employer-based insurance spending are expected to increase by 4.3%, 4.4%, and 4.3% in 2022, 2023, and 2024, respectively. Adjusting for the 4% increase in annual premiums in 2021 and 4.3% in 2022, the estimated revenue loss related to the refundable tax credit would be roughly up to $344 million in FY 2023 (subject to the qualifications above).

The $344 million amount includes estimated health costs paid by private employers under self-insured plans, which are not eligible for the credit, implying the actual revenue loss is less than $344 million. Based on nationwide data in the KFF Employer Health Benefits 2021 Annual Survey, derived from federal Form 5500 filings, about 63% of employees who were enrolled in private for-profits or private not-for-profits employer-based insurance plans in 2021 were covered under a self-funded plan. In comparison, according to data derived from the KFF website, Ohio's share of private sector enrollees enrolled in self-insured plans was 69.5% in 2020.[8] Excluding the number of Ohioans who may receive health insurance coverage through private sector employer self-insured plans, the estimated revenue loss would be about $107 million in FY 2023, after adjusting for annual premium increases mentioned above.[9] This estimate should be considered very rough because the estimate (1) relied in part on nationwide data, (2) relied in part on rather old data (from 2013), and (3) because the increase in premiums from 2021 to 2022 may differ from the projections made by federal actuaries.

The GRF would bear most of any revenue loss. Under current law, all revenue from PIT, FIT, domestic and foreign insurance premium taxes, and PUET are deposited into the GRF. Additionally, 85% of CAT receipts are deposited into the GRF while the remaining 15% are deposited into the School District Tangible Property Tax Replacement Fund (Fund 7047, 13%) and

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plan, employee-plus-one coverage has a higher premium than single coverage but a lower premium than family coverage."

[6] A copy of KFF Employer Health Benefits 2021 Annual Survey report is available at: https://www.kff.org/health-costs/report/2021-employer-health-benefits-survey/.

[7] The National Health Expenditure Projections 2019-2028 is prepared by the Office of the Actuary in the Centers for Medicare & Medicaid Services annually. The projections of health care spending are categorized by source of funds such as private health insurance, Medicare, or Medicaid.

[8] Source: KFF State Health Facts – Share of Private-Sector Enrollees Enrolled in Self-Insured Plans.

[9] The estimated private employers' premium contributions, excluding contributions under self-insured plans is roughly $7.6 billion on health benefit coverage for Ohio employees in 2020 (i.e., (2.7 million x 30.5%) x ((51.3% x $5,406) + (18.9% x $10,005) + (29.8% x $15,182))). The estimated revenue loss would be roughly $107 million (i.e., ($7.6 billion x 1.3%) x 1.04 x 1.043).

the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2%). Distributions to Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property.[10] Revenue from PAT is initially credited to the Petroleum Activity Tax Fund. Of the amount remaining after paying tax refunds, 1% is transferred to the Petroleum Activity Tax Administration Fund to offset Department of Taxation costs. Next, PAT receipts from fuels sold to propel vehicles on public highways are transferred to the Petroleum Activity Tax Public Highways Fund; these moneys comprise the bulk of PAT collections, and must be used for maintaining the state highway system or paying debt service on highway bond obligations. Any revenue from sales of motor fuel not used to propel vehicles on public highways is transferred to the GRF.

Any reduction to total GRF tax receipts would also reduce the amount distributed to the Local Government Fund (LGF) and the Public Library Fund (PLF); each fund would bear 1.66% of such revenue loss per year starting in July 2023, under current law.[11] Any reduction to the LGF and PLF would decrease distributions from the funds to counties, municipalities, townships, public libraries, and other political subdivisions in the state.

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[10] For any fiscal year, if receipts are short of amounts needed for such payments, the GRF would make up the difference. Fiscal year receipts in excess of amounts needed for such payments are transferred back to the GRF.

[11] But see footnote 2 above regarding the PLF allocation during the current biennium.