

APR 20 2005
WAYS & MEANS CALENDAR

HOUSE FILE 871
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 689)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act providing for income tax credits for the cost of
2 purchasing health insurance coverage by certain small
3 employers and providing effective and retroactive
4 applicability dates.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 871

TLSB 2242HV 81

av/gg/14

1 Section 1. NEW SECTION. 422.11K SMALL EMPLOYER HEALTH
2 INSURANCE COVERAGE TAX CREDIT.

3 1. The taxes imposed under this division, less the credits
4 allowed under sections 422.12 and 422.12B, shall be reduced by
5 a small employer health insurance coverage tax credit. The
6 tax credit may be claimed by a small employer that purchases
7 health insurance coverage, as defined in section 513B.2, for
8 the small employer's employees and their dependents for the
9 first time. The amount of the tax credit equals one hundred
10 percent of the cost to the small employer of purchasing the
11 first year of the health insurance coverage. The tax credit
12 shall be taken over five tax years as provided in subsection
13 2.

14 2. a. A small employer is entitled to claim twenty
15 percent of the amount of the small employer health insurance
16 coverage tax credit for the first tax year for which the
17 health insurance coverage is purchased and twenty percent of
18 the amount of the credit for each consecutive year thereafter
19 that the small employer continues to purchase health insurance
20 coverage for a total of five tax years. However, any credit
21 in excess of the tax liability for the tax year is
22 nonrefundable but may be credited to the tax liability for the
23 following seven years or until depleted, whichever is the
24 earlier.

25 b. If a small employer that has claimed the small employer
26 health insurance coverage tax credit is merged with another
27 business or is divided into separate businesses, any resulting
28 business which is at least fifteen percent directly or
29 indirectly owned or controlled by the owners or controllers of
30 the original small employer, is entitled to claim any amounts
31 of the small employer health insurance coverage credit that
32 remain so long as the resulting business continues to purchase
33 the health insurance coverage during each tax year for which
34 the credit is claimed.

35 3. An individual may claim a small employer health

1 insurance coverage tax credit allowed a partnership, limited
2 liability company, S corporation, estate, or trust electing to
3 have the income taxed directly to the individual. The amount
4 claimed by the individual shall be based on the pro rata share
5 of the individual's earnings of the partnership, limited
6 liability company, S corporation, estate, or trust.

7 4. a. For the purposes of this section "small employer"
8 means a person actively engaged in business, to which all of
9 the following apply:

10 (1) On at least fifty percent of the employer's working
11 days during the preceding year, employed not less than two and
12 not more than twenty full-time equivalent eligible employees.
13 In determining the number of eligible employees, companies
14 which are affiliated companies or which are eligible to file a
15 combined tax return for purposes of state taxation are
16 considered one employer.

17 (2) The annualized, average hourly wage paid by the
18 employer is equal to or greater than one hundred percent of
19 the average county wage.

20 b. For purposes of this definition, "average county wage"
21 means the annualized, average hourly wage calculated by the
22 department of workforce development which equals the least of
23 the following:

24 (1) The annualized, average hourly wage paid by all
25 businesses in the entire county.

26 (2) The annualized, average hourly wage paid by all
27 businesses in the county located outside the largest city of
28 the county.

29 (3) The annualized, average hourly wage paid by all
30 businesses other than the largest employer in the entire
31 county.

32 Sec. 2. Section 422.33, Code 2005, is amended by adding
33 the following new subsection:

34 NEW SUBSECTION. 17. a. The taxes imposed under this
35 division shall be reduced by a small employer health insurance

1 coverage tax credit. The tax credit may be claimed by a small
2 employer, as defined in section 513B.2, that purchases health
3 insurance coverage for the small employer's employees and
4 their dependents for the first time. The amount of the tax
5 credit equals one hundred percent of the cost to the small
6 employer of purchasing the first year of such health insurance
7 coverage. The credit shall be taken over five tax years as
8 provided in paragraph "b".

9 b. (1) A small employer is entitled to claim twenty
10 percent of the amount of the small employer health insurance
11 coverage tax credit for the first tax year for which the
12 health insurance coverage is purchased and twenty percent of
13 the amount of the credit for each consecutive year thereafter
14 that the small employer continues to purchase the health
15 insurance coverage for a total of five tax years. However,
16 any credit in excess of the tax liability for the tax year is
17 nonrefundable but may be credited to the tax liability for the
18 following seven years or until depleted, whichever is the
19 earlier.

20 (2) If a small employer that has claimed the small
21 employer health insurance coverage tax credit is merged with
22 another business or is divided into separate businesses, any
23 resulting business which is at least fifteen percent directly
24 or indirectly owned or controlled by the owners or controllers
25 of the original small employer, is entitled to claim any
26 amounts of the small employer health insurance coverage credit
27 that remain so long as the resulting business continues to
28 purchase the health insurance coverage during each tax year
29 for which the credit is claimed.

30 c. (1) For the purposes of this subsection "small
31 employer" means a person actively engaged in business, to
32 which all of the following apply:

33 (a) On at least fifty percent of the employer's working
34 days during the preceding year, employed not less than two and
35 not more than twenty full-time equivalent eligible employees.

1 In determining the number of eligible employees, companies
2 which are affiliated companies or which are eligible to file a
3 combined tax return for purposes of state taxation are
4 considered one employer.

5 (b) The annualized, average hourly wage paid by the
6 employer is equal to or greater than one hundred percent of
7 the average county wage.

8 (2) For purposes of this definition, "average county wage"
9 means the annualized, average hourly wage calculated by the
10 department of workforce development which equals the least of
11 the following:

12 (a) The annualized, average hourly wage paid by all
13 businesses in the entire county.

14 (b) The annualized, average hourly wage paid by all
15 businesses in the county located outside the largest city of
16 the county.

17 (c) The annualized, average hourly wage paid by all
18 businesses other than the largest employer in the entire
19 county.

20 Sec. 3. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.

21 This Act, being deemed of immediate importance, takes effect
22 upon enactment and applies retroactively to January 1, 2005,
23 for tax years beginning on or after that date.

24 EXPLANATION

25 This bill provides an individual and corporate income tax
26 credit for a small employer that purchases health insurance
27 coverage for its employees and their dependents for the first
28 time.

29 A small employer is defined as a person actively engaged in
30 business who on at least 50 percent of the employer's working
31 days during the preceding year, employed not less than two and
32 not more than 25 full-time equivalent eligible employees and
33 paid those employees an annualized, average hourly wage that
34 is equal to or greater than 100 percent of the average county
35 wage. "Average county wage" is defined to mean the

1 annualized, average hourly wage, calculated by the department
2 of workforce development, which equals the least of the
3 annualized, average hourly wage paid by all businesses in the
4 entire county, the annualized, average hourly wage paid by all
5 businesses in the county located outside the largest city of
6 the county, or the annualized, average hourly wage paid by all
7 businesses other than the largest employer in the county.

8 "Health insurance coverage" is defined to mean benefits
9 consisting of health care provided directly through insurance
10 or reimbursement, or otherwise, and including items and
11 services paid for as health care under a hospital or health
12 service policy or certificate, hospital or health service plan
13 contract, or health maintenance organization contract offered
14 by a carrier.

15 The amount of the credit equals 100 percent of the first
16 year's cost to a small employer of purchasing health insurance
17 coverage for its employees and their dependents for the first
18 time. A small employer is entitled to claim 20 percent of the
19 amount of the small employer health insurance coverage credit
20 for the first tax year for which the health insurance coverage
21 is purchased and 20 percent of the amount of the credit for
22 each consecutive year thereafter that the small employer
23 continues to purchase the health insurance coverage for a
24 total of five tax years.

25 The bill takes effect upon enactment and applies
26 retroactively to January 1, 2005, for tax years beginning on
27 or after that date.

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HOUSE FILE 871

H-1509

1 Amend House File 871 as follows:

2 1. Page 1, by inserting after line 24, the
3 following:

4 "____. If a small employer elects to take the small
5 employer health insurance coverage tax credit, the
6 small employer shall reduce, by the amount used in the
7 computation of the credit, the deduction for Iowa
8 income tax purposes of the cost of health insurance
9 premiums paid by the employer during the tax year in
10 which the tax credit is computed, that is deductible
11 for federal tax purposes."

12 2. Page 3, line 2, by striking the words and
13 figure ", as defined in section 513B.2,".

14 3. Page 3, line 3, by inserting after the word
15 "coverage" the following: ", as defined in section
16 513B.2,".

17 4. Page 3, by inserting after line 19, the
18 following:

19 "____. If a small employer elects to take the small
20 employer health insurance coverage tax credit, the
21 small employer shall reduce, by the amount used in the
22 computation of the credit, the deduction for Iowa
23 income tax purposes of the cost of health insurance
24 premiums paid by the employer during the tax year in
25 which the tax credit is computed, that is deductible
26 for federal tax purposes."

27 5. By renumbering as necessary.

By KAUFMANN of Cedar
DAVITT of Warren

H-1509 FILED APRIL 26, 2005

ADOPTED

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 871 - Small Employer Health Insurance (LSB 2242 HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 871 creates a corporate or personal income tax credit for a small business providing health care insurance to employees for the first time. Small employer is defined as two to twenty employees. The tax credit is equal to 100.0% of the first year premium paid by the employer. The credit is to be taken in 20.0% installments over five years, as long as the policy remains in place. Unused credits are not refundable, but may carry-forward for up to seven years. The credit is retroactive to January 1, 2005.

Assumptions

1. A total of 56,400 Iowa businesses have between two and twenty employees.
2. Eleven percent (6,500) of these firms do not currently offer employee health insurance.
3. The average employer-paid health insurance premium is \$4,044 per year.
4. Twenty-five percent of eligible employers will start insurance coverage in FY 2006 and 25.0% in FY 2007. The remaining 50.0% will not initiate coverage.

Fiscal Impact

The small business insurance tax credit in HF 871 will reduce net General Fund receipts by \$1.2 million in FY 2006 and \$2.6 million in FY 2007 through FY 2011.

Sources

Department of Revenue
Department of Public Health report
David P. Lind & Associates report

/s/ Holly M. Lyons

April 26, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 689)

(As Amended and Passed by the House April 26, 2005)

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A BILL FOR

1 An Act providing for income tax credits for the cost of
2 purchasing health insurance coverage by certain small
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House Amendments _____

Deleted Language *

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21 in excess of the tax liability for the tax year is
22 nonrefundable but may be credited to the tax liability for the
23 following seven years or until depleted, whichever is the
24 earlier.

25 b. If a small employer elects to take the small employer
26 health insurance coverage tax credit, the small employer shall
27 reduce, by the amount used in the computation of the credit,
28 the deduction for Iowa income tax purposes of the cost of
29 health insurance premiums paid by the employer during the tax
30 year in which the tax credit is computed, that is deductible
31 for federal tax purposes.

32 c. If a small employer that has claimed the small employer
33 health insurance coverage tax credit is merged with another
34 business or is divided into separate businesses, any resulting
35 business which is at least fifteen percent directly or

1 indirectly owned or controlled by the owners or controllers of
2 the original small employer, is entitled to claim any amounts
3 of the small employer health insurance coverage credit that
4 remain so long as the resulting business continues to purchase
5 the health insurance coverage during each tax year for which
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7 3. An individual may claim a small employer health
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9 liability company, S corporation, estate, or trust electing to
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11 their dependents for the first time. The amount of the tax
12 credit equals one hundred percent of the cost to the small
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15 provided in paragraph "b".

16 b. (1) A small employer is entitled to claim twenty
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