

SESSION OF 2005

**SUPPLEMENTAL NOTE ON
SUBSTITUTE FOR SENATE BILL NO. 257**

As Recommended by Senate Committee on
Assessment and Taxation

Brief*

Substitute for SB 257 amends four statutes that are a part of an act under which refundable tax credits may be claimed by certain small employers who contribute to health benefit plans made available to eligible employees. In general, the proposed amendments change the schedule of tax credits and add health savings accounts to the employer contributions that qualify for a tax credit.

The bill applies to small employers (those employing at least two and not more than 50 eligible employees, a majority of whom are employed in Kansas) who have not contributed to a covered employee's health insurance premium or health savings account in the previous two years.

A definition of health savings account is added to the act by Sub. for SB 257. Under existing law, a qualifying small employer may claim a refundable credit against Kansas income taxes for amounts paid during the taxable year on behalf of an eligible employee to provide health insurance or care as noted below:

For the first two years:

\$35 per eligible covered employee or 50 percent of the total amount paid by the employer during the taxable year, whichever is less.

For the third year:

75 percent of the lesser of \$35 per month per employee or 50 percent of the total paid by the employer.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

For the fourth year:

50 percent of the lesser of \$35 per month per covered employee or
50 percent of the total paid by the employer.

For the fifth year:

25 percent of the lesser of \$35 per month per covered employee or
50 percent of the total paid by the employer.

No further tax credits are allowed for the sixth and subsequent
years.

The current provisions of the law apply to employers that estab-
lished a small employer health benefit plan after December 1, 1999 and
prior to January 1, 2005.

Under new provisions added to the act by the substitute bill, for
employers that have established a small employer health benefit plan
or made contributions to a health savings account of an eligible covered
employee after December 31, 2004, the refundable tax credit that may
be claimed is as noted below:

For the first 12 months:

\$70 per month per eligible covered employee.

For the next 12 months:

\$50 per month per eligible covered employee.

For the next 12 months:

\$35 per month per eligible covered employee.

After 36 months of participation, no tax credit is allowed.

Under current law, there is a statutorily prescribed procedure
involving notification to the Insurance Commissioner and certification by
the Commissioner necessary to claim a tax credit. Sub. for SB 257
deletes this procedure from the act and replaces it with a directive to
the Secretary of Revenue to promulgate rules and regulations for
claiming the tax credit.

Background

SB 275 as introduced was, in part, the result of meetings of the Senate Committee on Public Health and Welfare on health-related issues, including health savings accounts and high deductible health benefit plans as authorized by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Portions of the bill relating to changes in tax credits were suggested by other presenters as a way of making the law more attractive to small employers. In the hearing held by the Senate Committee on Assessment and Taxation, support for the concepts contained in SB 257 was expressed by representatives of America's Health Insurance Plans, the National Federation of Small Business, the Kansas Chamber of Commerce, and a health savings account specialist, a businessman, and a member of the Senate. No one appeared in opposition to the bill. The substitute bill was developed by a subcommittee and incorporates changes suggested by conferees, state agency personnel, and members of the Senate.

There was no fiscal note available on the original bill at the time the Senate Committee worked the bill.