

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 12:30 A.M. on March 31, 2005 in Room 319-S of the Capitol.

All members were present except:

Representative Paul Davis- excused
Representative Mario Goico- excused

Committee staff present:

Chris Courtwright, Legislative Research Department
Emalene Correll, Legislative Research Department
Gordon Self, Revisor of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Senator James Barnett
Hal Hudson, National Federation of Independent Businesses
Ken Daniels, Midway Wholesale
Lew Ebert, KCCI

Others attending:

See attached list.

SUBSTITUTE FOR SENATE BILL 257 (Sub. SB 257) - Income tax credits for employer contributions to employee health benefit plans and health savings.

Ms. Correll briefed the committee on **Sub. SB 257**. She stated that the substitute 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 (Attachment 1).

Senator James Barnett, primary sponsor of the **Sub. SB 257**, addressed the Committee (Attachment 2). He stated that Health Savings Accounts (HSAs) represent one of the fundamental changes in how individuals pay for health care. They bring responsibility into the loop of health care expenditures and provide tax incentives to save for future health care needs. The Kansas Department of Research has documented that small businesses in Kansas represent the major source of health care insurance to Kansas workers. He called attention to attachments that reflected results of surveys performed during 2004 with small businesses across the state.

The Senator suggested two benchmarks that could be used to determine the success of the program would be to follow the uptake of businesses participating in the program and monitor the number of uninsured Kansans.

Chairman Wilk asked if the Senator would consider the request for some type of reporting or accountability tracking a friendly provision to the bill. The Senator stated it would not be a problem.

Hal Hudson, National Federation of Independent Businesses, rose in support of **Sub. SB 257** (Attachment 3). He stated that on their state ballot mailed to members last fall, they asked: "Should legislation be enacted to double the income tax credit for employers who provide health care insurance coverage for their employees, and simplify employer qualification". Of those responding, 82% said yes, while only 9% said no, and 8% were undecided. They support **Sub. SB 257** because it is a first step to encourage small employers and their employees to obtain and pay for health care insurance.

Ken Daniels, Midway Wholesale, testified in favor of **Sub. SB 257** (Attachment 4). The bill basically doubles the credit in the beginning, simplifies the calculations, and shortens the period from five years to

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on March 31, 2005 in Room 519-S of the Capitol.

three years. HSAs, as approved by Congress in December 2003, may well be the single best solution available now to slow down the galloping increases in health care costs. An important feature is the HSAs force consumers to pay attention to the costs of the health care they are receiving, and give them a big stake in controlling those costs. It also helps small businesses get started on providing insurance if they haven't been providing it. He urged passage on the bill.

Lew Ebert, KCCI, stated that the Kansas Chamber supports **Sub. SB 257**, tax credits for employers (Attachment 5). Currently, there is a tax credit offered for employers, but this bill makes the credit more attractive and applicable to contributions made by employers to HSAs. As health care costs increase, more and more employers are looking into health insurance for their employees and this bill encourages employers to take advantage of the savings HSAs could bring their companies.

Mr. Cram addressed the issue of the fiscal note. He stated that it was based on past credit usage. The Department compiles data, published in an annual report, that reflects the number of businesses that have claimed this credit and the amount that has been allowed. In FY 2003 there were 87 businesses that claimed \$140,000 in tax credit and usage has continued to increase each year. They have just revised the fiscal note, based on the latest amendments and it would have a fiscal impact of \$200,000 for 2006, assuming that this bill would stimulate additional growth in the number of businesses that would participate.

Chairman Wilk stated that it had been requested that the bill be passed out of the committee in a timely way, and he questioned whether the Senator would assure the Committee that they would consider some type of accounting measure be added to the bill, that would in turn become part of a bigger health care proposal. The Senator stated that if it could be crafted and accomplished during this session he was interested in doing that, however, he didn't want to delay the bill. He would work with the Chairman, but added that under the bigger picture the Kansas Health Policy Authority, which they hope to see advanced in both houses, provided the broadest plan.

Seeing no other conferees for **Sub. SB 257** the Chairman closed the hearing.

Representative Huff made the motion that the Taxation Committee recommend Sub. SB 257, favorably for passage. Representative Kelley seconded the motion. The motion carried.

The Chairman thanked the Committee for the work they had done this session. He commended the new members for their interest and diligence to learn more about taxation.

Representative Thull made the motion to approve the minutes from the March 4, 8, 9, 10 and 15th committee meetings. Representative Huff seconded the motion. The motion carried.

Representative O'Malley requested on behalf of a Taxation Sub-Committee that a bill be introduced on the "Investment in Excellence Fund". Representative Owens seconded the motion. The motion carried.

The meeting was adjourned at 1:15 p.m. There are no further meetings scheduled.

The minutes for March 31, were sent to Committee members and approved on April 1, 2005.