Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 1016 (Substitute S-1 as reported)
Sponsor: Senator Jim Stamas
Committee: Michigan Competitiveness

CONTENT

The bill would amend the Income Tax Act to reduce the rate of the gross premiums tax for premiums attributable to qualified health insurance policies, beginning on January 1, 2019, according to a formula that would cap the total tax reduction per year at $18.0 million.

The current rate of the tax is 1.25% of gross direct premiums written on property or risk located or residing in the State. Under the bill, for premiums attributable to qualified health insurance policies, the rate would be 0.95% in 2019. In subsequent tax years, the rate on those premiums would have to be determined according to the proposed calculation. By the October 1 each year, the Department of Treasury would have to calculate the rate for the year based on taxpayers' liability in the prior calendar year and the $18.0 million cap.

"Qualified health insurance policies" would mean policies written on risk located or residing in the State that are one of the following types: comprehensive major medical, student, Children's Health Insurance Program, Medicaid, employer comprehensive, or multiple employer associations or trusts and any other employer associations and trusts. A comprehensive major medical and employer comprehensive policy would be included regardless of whether it was eligible for a health savings account or purchased on the health insurance marketplace.

MCL 206.635 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately $18.0 million per year. Because the rate would be based on prior-year tax information, the bill would provide an adjustment mechanism to modify the rate in years when the revenue loss deviated from $18.0 million. As a result, on average, the loss would total $18.0 million per year. The bill would have no impact on local unit revenue.

Some taxpayers are affected by the retaliatory tax levied against out-of-State insurers. Those taxpayers would not experience reduced liabilities under the bill because their retaliatory tax would increase dollar-for-dollar for any reduction in tax liability attributable to the bill. Approximately 40% of Michigan insurance tax revenue, excluding the retaliatory tax, is received from firms subject to the retaliatory tax, and some data suggest that the share for taxpayers that receive premiums from health insurance policies is lower, at approximately 20%.

Date Completed: 5-23-18 Fiscal Analyst: David Zin