

March 15, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 11 (Schultz), 4th Engrossment

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
			(000's)	
Individual Income Tax	\$0	(\$106,600)	(\$363,200)	(\$266,800)
Corporate Franchise Tax	<u>\$0</u>	<u>(\$118,100)</u>	<u>(\$402,300)</u>	<u>(\$295,600)</u>
General Fund Total	\$0	(\$224,700)	(\$765,500)	(\$562,400)

Effective for tax years 2023 and 2024.

EXPLANATION OF THE BILL

Section 9 of the bill creates a small employer transitional health care credit against the corporate franchise tax or individual income tax. The credit is equal to 50% of a qualified employer's qualified employee health care expenses. A qualified employer is an employer with fewer than 50 employees, as defined in the Internal Revenue Code.

Qualified health care expenses include the total paid by the employer for each employee for health insurance premiums, a qualified small employer health reimbursement arrangement (QSEHRA), and an individual coverage health reimbursement arrangement (HRA).

The credit is nonrefundable but may be carried forward for up to five years. For a nonresident or part-year resident, the credit must be allocated based on the percentage of the taxpayer's income attributable to Minnesota.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from the Kauffman Family Foundation's 2021 Employer Health Benefits Survey, information from the Census Bureau's County Business Patterns survey, and data from employee W-2s for tax year 2019.
- About 120,900 employers in Minnesota have fewer than 50 employees, based on information from tax returns and the County Business Patterns survey. They are estimated to have 7 employees on average, or 846,600 employees.
- About 56% of employers with fewer than 50 employees offer health insurance benefits, according to the 2021 Employer Health Benefits Survey.
- About 60% of employees of those firms are covered by the insurance plan.
- For small employers with fewer than 50 employees in 2021:
 - The average premium for single coverage is \$7,495, with \$6,011 paid by the employer.
 - The average premium for family coverage is \$21,116, with \$15,015 paid by the employer.
- Slightly more than half of covered employees choose single coverage, and the remainder choose single-plus-one or family coverage, according to the 2011 Medical Expenditure Panel Survey.

REVENUE ANALYSIS DETAIL (Cont.)

- Total eligible expenses for group insurance are estimated at \$2.985 billion in 2021.
- About 6% of employers who offer health benefits offer HRAs, according to the 2021 Employer Health Benefits Survey. Among those employers, 7% of employees are enrolled in an HRA.
- The average employer contribution to an HRA is \$1,410 for a single plan and \$2,344 for a family plan.
- Total eligible expenses for individual HRAs are estimated at \$5.4 million in 2021.
- Contributions to qualified small employer HRAs totaled \$4.0 million in 2019, based on information from 2019 W-2s.
- C corporations make up about 40.6% of the total and pass-through entities make up 59.4%, based on employment data for employers with fewer than 50 employees from the County Business Patterns survey.
- The estimate was reduced by 40% because the credit is nonrefundable. It is assumed that 5% of the available carryover credits will be claimed each year.
- Apportioning the credit for nonresident shareholders of pass-through entities reduces the individual income tax impact by 38%.
- Tax year impacts were allocated 30% / 70% to fiscal years.

Minnesota Department of Revenue
Tax Research Division
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hf0011(sf1029) small employer health care credit / cw