DEPARTMENT OF AUDITS AND ACCOUNTS

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March 5, 2021

Honorable Shaw Blackmon
Chairman, House Ways and Means
133 State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 552 (LC 34 5747ER)

Dear Chairman Blackmon:

The bill would change the definition of health care sharing ministries to health care sharing organizations. It would also allow taxpayers to deduct the full amount paid for shares as a member of a health care sharing organization from Georgia taxable income. The deduction would be allowed only to the extent that the amount was not deducted on the taxpayer's federal income tax return in determining the taxpayer's federal taxable income for that year. The deduction would be effective for tax years beginning on or after January 1, 2021.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by $17.8 million to $18.4 million in FY 2022 (Table 1). The loss would be $23.4 million to $27.5 million by FY 2026. Details of the analysis are in the appendix.

Table 1. Projected State Revenue Effects of HB 552

($ *millions*)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**
High	($18.4)	($20.3)	($22.5)	($24.8)	($27.5)
Low	($17.8)	($19.1)	($20.4)	($21.9)	($23.4)

Impact on State Expenditures – Office of the Commissioner of Insurance (OCI)
This bill will have no fiscal impact on OCI. Health care sharing ministries are exempt from regulation by OCI. While OCI estimates that it may receive additional customer complaints as more individuals join health care sharing organizations, it does not anticipate an increase would require hiring additional staff.

Impact on State Expenditures – Department of Revenue
The Department of Revenue (DOR) would implement the provisions of the bill with existing resources.

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/kpb

Analysis by the Fiscal Research Center

Under current law, payments to health care sharing organizations (HCSOs, referred to in current law as health care sharing ministries) are not deductible under federal or state law, though a new IRS regulation proposed in June 2020 (REG-109755-19) would, if it becomes final, allow for an itemized deduction for such payments as a medical expense, limited to amounts in excess of 7.5 percent of federal adjusted gross income (AGI).[1] Taxpayers who do not itemize deductions and those who do not have medical deductions in excess of 7.5 percent of AGI would still be unable to deduct HCSO payments. For those who are able to deduct them, if the proposed regulation becomes final, their deduction would flow through to the Georgia tax return as part of their federal itemized deductions. However, discussion with the Alliance of Healthcare Sharing Ministries (AHSM) about the status of this regulation indicated that it is not expected to be finalized (i.e. to become a law).

HB 552 would allow any Georgia taxpayer making payments as a member of an HCSO to take a deduction on their Georgia return to the extent they have not taken an itemized deduction for the same expense on their federal return. The deduction would be taken as a subtraction from federal AGI in arriving at Georgia AGI, and not as an adjustment to itemized deductions. Thus, Georgia taxpayers would be able to benefit from the deduction even if they take the standard deduction or if they itemize, to the extent their itemized deduction for HCSO expenses is reduced due to the medical expense deduction floor in federal law.

High and low estimates of the effect of the proposed deduction are based on information about costs, membership, and growth of HCSOs from various sources, effective tax rate assumptions derived from Georgia Department of Revenue (DOR) data, and other assumptions as follows:

- According to a 2020 update from the AHSM, Georgia currently has the fifth largest population of HSCO members in the country with 87,800 members in large and small HSCO plans. Data from AHSM and the Commonwealth Fund suggest that participation in HCSOs nationally has grown by about 18.3 percent annually, on average, from 2008 through 2020, though for the latest two years, growth appears to have slowed slightly to 16.8 percent annually. AHCSM indicates that recent growth was boosted by certain large plans using brokers for the first time to market their plans, and that future growth is expected to be lower, around 5 percent per year.
- Information from healthcare consulting firm Avalere Health suggests that certain regulations from the U.S. Department of Labor, finalized in 2019, will give rise to faster growth of an insurance alternative HCSOs, so-called association health plans (AHPs) sponsored by industry, trade, or professional associations.
- In consideration of the above, participation in the state is projected to grow at ½ of the recent national rate, or 8.4 percent annually, in the high case and at 5 percent annually in the low case.

[1] The Consolidated Appropriations Act of 2021, signed into law December 27, 2020, made permanent the reduced, 7.5 percent of AGI, floor for medical expense deductions. Prior to passage, the deduction floor for 2021 would have been 10 percent of AGI.

- 2018 data from the Christian Care Ministry's Medi-Share program (the largest HSCO in the country with a third of all U.S. HSCO members) indicates that the average monthly cost of membership in their health care sharing organization was about $350. This amount is assumed to be the average in the same year in Georgia, with growth to the projections periods assuming inflation at a rate of 2 percent annually.

Tax savings from deduction of HCSO costs also depend on the average effective tax rate (AETR) of members as well as their having sufficient taxable income to utilize the deduction. Unfortunately, data are not available as to the income characteristics of HCSO members, so they are assumed to have an income distribution similar to taxpayers as a whole.

- Many taxpayers have zero taxable income under current law and would receive no benefit from the additional deduction, about 22 percent as of 2018 according to DOR data. These taxpayers are assumed to be eligible for Medicaid or large ACA subsidies (or Medicare, if seniors) and thus unlikely join HCSOs. Comments from AHCSM regarding large plans' target markets support the assumption that these very-low-income taxpayers are unlikely participants.
- Another roughly 10 percent did not have sufficient taxable income – after all other exemptions, deductions, and exclusions – to utilize the full deduction of average HCSO costs that year, about $4,200. Thus, it is assumed that about 12.8 percent (10 percent divided by the 78 percent with tax liability) would be able to utilize only half of the deduction before their taxable income is also zero.
- For the group with taxable income greater than zero and less than the average cost of HCSO participation, the AETR for that group in 2018, after adjusting for the 2019 reduction in the top marginal tax rate to 5.75 percent, is approximately 1.45 percent.
- For the group with taxable income sufficient to utilize the full deduction, the AETR in 2018 (again, after adjusting for the top rate reduction) was 4.96 percent.

Resulting high and low case participation and total HCSO payment projections are presented in Table 2 below. Estimated tax savings, after adjusting to state fiscal years assuming reduced withholding and estimated payments over the year, are provided in Table 1. Tax year 2021 effects are assumed to impact revenues entirely in FY 2022.

Table 2. Participants and Total Costs of HCSO Plans in Georgia

($ *millions*)	**TY 2021**	**TY 2022**	**TY 2023**	**TY 2024**	**TY 2025**	**TY 2026**
Total HCSO Participants						
High	95,164	103,146	111,798	121,175	131,338	142,354
Low	92,190	96,800	101,640	106,722	112,058	117,661
Total HCSO Payments						
High	$408	$451	$498	$551	$609	$673
Low	$395	$423	$453	$485	$520	$557