

LEGISLATIVE FISCAL ESTIMATE TO

SENATE, No. 44

STATE OF NEW JERSEY

DATED: April 1, 1996

Senate Bill No. 44 of 1996 provides a 10 percent credit against the corporation business tax or the insurance premiums tax for expenses associated with the purchase, lease or rental of electronic data interchange (EDI) technology. EDI technology is slated to be used primarily as an electronic communication medium for the State's medical community.

Taxpayers who purchase EDI technology between July 1, 1997 and July 1, 1999 are eligible to receive this credit provided they meet two limitations set forth by this bill. Specifically, the electronic data technology must be used primarily for the submission of health benefits claims, inquiries about health benefits claims, information about health benefits claims payments, health benefits plan enrollment transactions, or health benefits-related eligibility inquiries; and the value of the credit in any given year cannot exceed 50 percent of the taxpayer's liability that would have otherwise been due. The taxpayer may carry forward the unused portion of the credit for up to seven successive tax years.

In the absence of necessary data, the Office of Legislative Services (OLS) is unable provide a reliable estimate of this legislation's cost. To estimate the revenue loss from this bill it is necessary to know the potential statewide cost of EDI technology, the proportion of EDI technology consumers who are New Jersey corporation business taxpayers or insurance premiums taxpayers, the annual tax liability of these taxpayers, and the proportion of EDI technology usage that is directly attributable to New Jersey health and medical transactions. Without such information there are currently too many uncertainties regarding the size of the potential credit and which taxpayers will be eligible to take the credit for the OLS to estimate its impact.

Although it is not currently possible to measure the specific value of this credit, the OLS does believe that the primary beneficiaries of this credit to be insurance premiums taxpayers. The primary consumers of EDI technology in New Jersey are expected to be insurance companies, hospitals and physicians. Hospitals will not qualify for this credit because all New Jersey hospitals are non-profit institutions and, as such, do not pay corporation business taxes. Although many physicians pay corporation business taxes, most profits from their medical practices are taken as salaries and are taxed under the gross income tax. Furthermore, the costs for physicians to acquire EDI technology access will probably not be significant. In most cases

it will require the addition of a modem to an existing computer which will cost approximately \$150, a tax credit under this legislation of \$15. Therefore, the primary beneficiaries of this credit will be insurance companies. Insurance companies will require larger infrastructure costs to purchase EDI technology and these companies have sufficient tax liability under the insurance premiums tax to take advantage of this credit.

This fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.