

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Landes

2. **Bill Number** HB 2555

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax Credit for
Long-Term Care Insurance

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create a refundable individual income tax credit for long-term care insurance premiums paid during a taxable year. The amount of the credit would be equal to 100% of the amount in long-term care insurance premiums paid during the taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2003.

6. **Fiscal Impact Estimates are:** Tentative. (See Line 8.)

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$138,010	GF
2003-04	\$24,322	GF
2004-05	\$11,222	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$0	GF
2003-04	<\$68.1 million>	GF
2004-05	<\$74.8 million>	GF

7. **Budget amendment necessary:** Yes.

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8. **Fiscal implications:**

This bill would decrease General Fund revenues by approximately \$68.1 million in Fiscal Year 2004 and \$74.8 million in Fiscal Year 2005. This revenue impact is based on an estimate of the growth rate of the number of long-term care insurance policies.

The Department would incur systems development and processing costs of \$138,010 in Fiscal Year 2003, \$24,322 in Fiscal Year 2004, and \$11,222 in Fiscal Year 2005 and thereafter to administer this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

Under current Virginia law, individuals are permitted a deduction for premiums paid for long-term health care insurance. See line 11. If it is the intent of this bill to replace the Virginia deduction with the credit proposed by this bill, *Va. Code* § 58.1-322(D) would need to be amended to repeal the deduction. In order to make this amendment, an amendment in the nature of a substitute would be necessary.

11. Other comments:

Generally

Long-term health care insurance generally provides coverage for the costs of nursing home care and in-home care that can last over extended periods of time. This type of insurance is promoted as a way to provide asset protection against the exorbitant costs of long-term care.

Most traditional health insurance plans do not cover long-term care. Medicaid will only cover the cost of long-term care after an individual has exhausted all other means of payment.

Federal Income Tax Treatment

Under federal income tax law, health insurance premiums (including those for long-term care) may be deductible as medical expenses by those individuals who claim itemized deductions.

The deduction of medical expenses is limited to the extent the expenses exceed 7.5% of the individual's federal adjusted gross income. In addition, the maximum amount of deductible long-term care premiums is based on the covered individual's age at the close of the taxable year. For taxable years beginning in 2003, the deduction limits for long-term care premiums are \$250 for age 40 or less, \$470 for ages over 40 but not over 50, \$940 for ages over 50 but not over 60, \$2,510 for ages over 60 but not over 70, and \$3,130 for ages over 70.

Virginia Long-Term Health Care Insurance Deduction

In 1999, the General Assembly enacted legislation that created an individual income tax deduction for long-term health care insurance premiums provided that these premiums have not been deducted for federal income tax purposes. This deduction is available to individuals even if they do not itemize for federal income tax purposes.

Proposed Long-Term Health Care Insurance Credit

This bill would provide a refundable income tax credit to any individual for the full amount of long-term care insurance premiums incurred during a taxable year. If the amount of the credit exceeds an individual's income tax liability for a taxable year, the excess would be refunded to the individual.

This bill would be effective for taxable years beginning on and after January 1, 2003. The Department would be required to promulgate regulations to implement the proposed tax credit.

cc : Secretary of Finance

Date: 01/14/03 DTM
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