DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement

1. Patron Phillip A. Hamilton

2. Bill Number HB 1050

House of Origin:

X **Introduced**

_____ **Substitute**

_____ **Engrossed**

Second House:

_____ **In Committee**

_____ **Substitute**

_____ **Enrolled**

3. Committee House Finance

4. Title Individual Income Tax, Credit for the Purchase of Long-Term Care Insurance

5. Summary/Purpose:

This bill would provide a credit against the individual income tax for long-term care insurance premiums paid by the individual during the taxable year. The amount of the credit for each taxable year would equal 10% of the amount paid in long-term care insurance premiums. In addition, this credit would replace the current Virginia deduction for long-term care insurance.

This bill is effective for taxable years beginning on or after January 1, 2004.

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

6a. Expenditure Impact:

Fiscal Year	***Dollars***	***Fund***
2003-04	$32,000	GF
2004-05	$158,520	GF
2005-06	$3,564	GF
2006-07	$3,671	GF
2007-08	$3,781	GF
2008-09	$3,895	GF
2009-10	$4,011	GF

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2003-04	$0	GF
2004-05	<$2.5 million>	GF
2005-06	<$2.7 million>	GF
2006-07	<$3.0 million>	GF
2007-08	<$3.3 million>	GF
2008-09	<$3.6 million>	GF
2009-10	<$4.0 million>	GF

7. Budget amendment necessary: Yes.

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8. **Fiscal implications:**

<u>Administrative Impact</u>

The Department would incur administrative costs of $32,000 for FY 2004, $158,520 for FY 2005, $3,564 for FY 2006, $3,671 for FY 2007, $3,781 for FY 2008, $3,895 for FY 2009, and $4,011 for FY 2010 for forms revision, systems development, and additional instructional material.

<u>Revenue Impact</u>

This bill would decrease General Fund revenues by $2.5 million in FY 2005, $2.7 million in FY 2006, $3.0 million in FY 2007, $3.3 million in FY 2008, $3.6 million in FY 2009, and $4.0 million in FY 2010.

9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** No.

11. **Other comments:**

<u>General</u>

Under the Internal Revenue Code, a qualified long-term care insurance contract is defined as an insurance contract that provides only coverage of qualified long-term care services. The contract must be guaranteed renewable, not provide for a cash surrender, refunds and dividends must be used only to reduce future premiums, and generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare.

Long-term health care insurance 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.

<u>Federal Treatment of Long Term Care Insurance</u>

Federal law allows a deduction for those who itemize for long term care insurance premiums. An individual can deduct only the part of the medical and dental expenses, including long-term care insurance, which is more than 7.5% of the individual’s adjusted gross income. An individual can deduct long-term care insurance premiums paid for himself, a spouse or dependent(s). In order to deduct long-term care insurance premiums for a spouse or dependent, the individual must have been a spouse or dependent either at the time the insurance was purchased or at the time the long-term care insurance benefits are received.

The amount of qualified long-term care premiums that can be deducted is limited. The amount of allowable premium is based on age; if the individual is under the age of 40 the maximum allowable deduction is $250, age 41 to 50 the maximum is $470, age 51 to 60 the maximum is $940, age 61 to 70 the maximum is $2,510 and individuals age 71 and over the maximum is $3,310.

Proposal

This bill would provide a credit against the individual income tax for long-term care insurance premiums paid by the individual during the taxable year. The amount of the credit for each taxable year shall equal 10% of the amount paid in premiums for long-term care insurance coverage for himself. Long-term care insurance premiums are defined as the amounts paid during the year for a qualified long-term care insurance contract. In addition, this credit would replace the current deduction for long-term care insurance.

An individual may not claim the credit to the extent the individual has claimed a deduction for federal income tax purposes for long-term care insurance premiums for himself. Any unused credit may be carried over in the next five taxable years.

Other Legislation

Senate Bill 263 is identical to this bill.

House Bill 1214 creates dual credits against individual income taxes for certain long-term care insurance premiums paid by individuals during the taxable year for individuals at least 55 years of age.

cc : Secretary of Finance