DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement

1. **Patron** R. Steven Landes

2. **Bill Number** HB 2513
House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
X **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. **Committee** Senate Finance

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

5. **Summary/Purpose:**

This bill would allow an individual or a corporate income tax credit to taxpayers who operate businesses in the Commonwealth and who provide benefits packages to employees, which include long-term care insurance. The amount of the credit would be equal to ten percent of the long-term care insurance premiums incurred during the taxable year. However, the total amount of the credit would not be allowed to exceed $5,000 or $100 per employee, whichever is less. This bill would allow unused credit amounts to be carried over for the next three taxable years.

This bill would be effective for taxable years beginning on and after January 1, 2006.

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

Fiscal Year	***Dollars***	***Fund***
2004-05	$0	GF
2005-06	$2,600	GF
2006-07	$203,110	GF
2007-08	$9,796	GF
2008-09	$10,076	GF
2009-10	$10,378	GF
2010-11	$10,187	GF

7. **Budget amendment necessary:** Yes.
ITEM(S): 284 and 286, Department of Taxation

8. **Fiscal implications:**

Based upon the experiences of Maine and Maryland, which have similar credits in place, it is estimated that this bill would reduce revenues by less than $50,000 annually.

The Department would incur administrative costs of $2,600 for FY 2006, $203,110 for FY 2007, $9,796 for FY 2008, $10,076 for FY 2009, $10,378 for FY 2010, and $10,187 for FY 2011 for forms and systems modifications.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

General

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.

Federal Treatment of Long Term Care Insurance

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.

Federal law allows businesses to deduct premiums paid for employee health insurance. This includes the premiums for qualified long-term care insurance. Individuals may include qualified long-term care premiums in their federal itemized deductions.

Virginia Treatment of Long Term Care Insurance

Currently, Virginia allows individual taxpayers to deduct the amount paid annually in premiums for long term health care insurance, to the extent that the individual has not deducted the premiums for federal income tax purposes. There is no similar deduction for the purposes of Virginia corporate income taxation; however, the corporation's federal deduction would flow-through to Virginia taxable income.

Proposal

This bill would allow an income tax credit to taxpayers who operate businesses in the Commonwealth that provide benefits to employees that include long-term health care insurance. The amount of the credit would be equal to ten percent of the premium costs incurred during the taxable year to provide long-term care insurance as part of the benefits package, but would be limited to $5,000 or $100 per employee, whichever is less. This bill would allow the credit to be used against individual or corporate income tax liability.

Under this bill, taxpayers could carry over unused amounts of this credit for the next three taxable years. However, this credit would not be allowed to be carried back to a preceding year.

If this proposed credit were earned by a partnership or electing small business corporation (S corporation), this bill would require the amount of the credit to be allocated to individual partners or shareholder in proportion to their ownership or interest in the partnership or S corporation.

This bill would be effective for taxable years beginning on or after January 1, 2006.

cc : Secretary of Finance

Date: 2/10/2005 AMS
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