

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Vivian E. Watts

3. **Committee** House Finance

4. **Title** Individual Income Tax: Tax Credit for
In-Home Health Care Expenses

2. **Bill Number** HB 1449

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would establish an individual income tax credit for individuals who care for a family member and pay for the family member's in-home health care expenses. The credit would be equal to the amount paid by the individual in excess of \$10,000 for in-home health care for which there is no reimbursement and for which no other deduction has been taken. The amount of the credit could not exceed the individual's income tax liability.

This bill would be effective for taxable years beginning on or after January 1, 2007.

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

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

Administrative Impact

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

The magnitude of the revenue loss associated with this bill is unknown because the available data on caregiving is limited. Moreover, the expenses would be eligible for the federal itemized deductions to the extent that all medical expenses exceeded 7.5% of federal adjusted gross income. Therefore, the credit amount would depend on qualifying expenses and each individual's tax situation.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

If the intent is to benefit only those who live with the family member requiring the in-home health care expenses, the following technical amendment is suggested:

Page 1, Line 14, after member
Insert: living with such individual

To encourage electronic filing (which cannot accommodate paper attachments), the following technical amendment is suggested:

Page 1, Line 21, after taxpayer shall
Strike: submit
Insert: obtain

11. Other comments:

Federal Medical and Dental Expenses Deduction

Currently, if a taxpayer itemizes his deductions on his federal income tax return, the taxpayer may claim a deduction for the amount of medical and dental expenses that is greater than 7.5% of his federal adjusted gross income. Generally, taxpayers may take into account medical expenses paid for themselves as well as those paid for someone who was either a spouse or a dependent when the medical services were paid for or provided. Because Virginia is a conformity state, this federal deduction would also flow through to the Virginia income tax return.

Proposal

This bill would establish an individual income tax credit for individuals who care for a family member and pay for such family member's in-home health care expenses. The credit would be equal to the amount paid by the individual in excess of \$10,000 for in-home health care for which there is no reimbursement and for which no other deduction has been taken. This amount of the credit, however, could not exceed the individual's income tax liability.

In-home health care expenses would include unreimbursed medical expenses and companion care expenses.

In order to claim this credit, the taxpayer would be required to submit proof of the amount paid during the taxable year based on information requirements established by the Tax Commissioner. These requirements would be required to be explained in the instructions for the income tax return.

This bill would be effective for taxable years beginning on or after January 1, 2007.

Other Legislation

House Bill 1446 would create a deduction for the first \$10,000 of income earned by licensed medical caregivers who provide medical care to individuals in the homes of such individuals.

House Bill 1489 would create a deduction for individuals who are transplant recipients of an organ donation for medical expenses that are not covered by insurance.

cc : Secretary of Finance

Date: 01/30/2006 AMS
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