DEPARTMENT OF TAXATION
2009 Fiscal Impact Statement

1. Patron Vivian E. Watts

2. Bill Number HB 2195
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. Committee House Finance

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

5. Summary/Purpose:

This bill would establish an individual income tax credit for individuals who claim a mentally or physically impaired relative and care for that family member as well as pay for their in-home health care expenses. The credit would be equal to the unreimbursed amount paid by the individual for in-home health care for which no other deduction has been taken. The credit would be reduced by $1 for every $2 that the taxpayer's federal adjusted gross income exceeds $50,000 for single taxpayers and $75,000 for married taxpayers; and the annual credit amount could not exceed $1,000.

In-home health care expenses would include unreimbursed medical-related expenses, expenses related to assistance with activities of daily living, and companion care expenses.

This bill would be effective for taxable years beginning on or after January 1, 2010.

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

7. Budget amendment necessary: Yes. (See Line 8.)
Page 1, Revenue Estimates

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

This bill would result in a significant but unknown revenue loss to the General Fund. Given the broad qualifying criteria and range of expenses, TAX is unable to locate publicly available data that would detail the number of potentially qualifying individuals that receive care at this level or the expenses incurred for their care.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

In order to clarify who may qualify for this credit, the following technical amendment is suggested:

Page 1, Line 15, after 63.2-2200,
Insert: as a dependent on his federal income tax return

11. Other comments:

Other States

In a recent review of other states, TAX found are approximately eight states that provide some form of tax preference regarding in-home healthcare. Of those eight states, six – Arkansas, Georgia, Missouri, Montana, North Dakota, and Oregon – offer tax credits, and two – Idaho and Iowa – offer deductions. The maximum amounts for the tax credits range from $150 to $10,000; and the maximum amounts for the deductions are $1,000 for Idaho and $5,000 for Iowa.

These tax preferences primarily benefit those paying for or providing the in-home health care for a qualifying person, typically a family member, who meets some form of age or disability restriction.

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.

Qualifying Dependents

Under federal law, certain requirements must be met in order for a taxpayer to claim another person as his dependent. The taxpayer must be related to the dependent in a specified way; and he must provide more than half of the total support for the dependent during the year. In addition, the dependent must have gross income below a certain amount. If the dependent is a qualifying child, he or she must also be below a certain age and must live with the taxpayer for more than half of the year.

Proposal

This bill would establish an individual income tax credit for individuals who claim a mentally or physically impaired relative and care for that family member as well as pay for their in-home health care expenses. The credit would be equal to the unreimbursed amount paid by the individual for in-home health care for which no other deduction has been taken. The credit would be reduced by $1 for every $2 that the taxpayer's federal adjusted gross income exceeds $50,000 for single taxpayers and $75,000 for married taxpayers. The annual credit amount could not exceed $1,000.

In-home health care expenses would include unreimbursed medical-related expenses, expenses related to assistance with activities of daily living, and companion care expenses.

A "mentally or physically impaired person" is a person who is a resident of Virginia that requires assistance with two or more activities of daily living during more than half the year.

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 explained in the instructions for the individual income tax return.

This bill would be effective for taxable years beginning on or after January 1, 2010.

Similar Legislation

House Bill 2196 would establish an individual income tax deduction for individuals in the amount of $10,000 for certified nursing assistants and home health aides, who provide Medicare-authorized home health or long-term care services to individuals in their homes. The deduction would be reduced $1 for every $2 the taxpayer's federal adjusted gross income exceeds $40,000. This bill would be effective for taxable years beginning on or after January 1, 2010.

cc : Secretary of Finance

Date: 1/18/2009 JKL
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