

# DEPARTMENT OF TAXATION

## 2014 Fiscal Impact Statement

1. **Patron** Kaye Kory

3. **Committee** House Finance

4. **Title** Individual income tax deductions; life, medical, and dental insurance premiums

2. **Bill Number** HB 314

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would eliminate the requirement that an individual must have earned income of at least \$20,000 and federal adjusted gross income of no more than \$30,000 to be eligible to claim a deduction for premiums paid annually for a prepaid funeral insurance policy or medical or dental insurance.

This bill would be effective for taxable years beginning on or after January 1, 2014.

6. **Budget amendment necessary:** No.

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

### 8. **Fiscal implications:**

#### Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and is not requesting additional funding.

#### Revenue Impact

This bill would have an unknown, but potentially significant, negative impact on General Fund revenues beginning in Fiscal Year 2015. This revenue loss could exceed \$25 million annually. Because this bill would eliminate the requirement that a taxpayer must have at least \$20,000 in earned income and no more than \$30,000 in federal adjusted gross income to claim the deduction, a greater number of taxpayers would be eligible to claim the deduction.

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

Department of Taxation

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

## 11. Other comments:

### Current Law

For Virginia income tax purposes, an individual taxpayer is permitted to claim a deduction equal to the amount of premiums paid for (i) a prepaid funeral insurance policy covering such individual or (ii) medical or dental insurance for any person for whom the individual taxpayer may claim a deduction for such premiums under federal income tax laws. To qualify for the deduction, an individual must be age 66 or older, have earned income of at least \$20,000, and have federal adjusted gross income of no more than \$30,000.

The deduction is not allowed for any portion of such premiums for which the taxpayer has been reimbursed, claimed a deduction for federal income tax purposes, claimed another Virginia income tax deduction or subtraction, or claimed a federal income tax credit or any Virginia income tax credit.

Individual taxpayers are permitted to claim a deduction on their Virginia income tax returns equal to the amount of certain itemized deductions claimed on the federal income tax return. Such federal itemized deductions include the deduction for medical and dental expenses paid during the year. For purposes of the deduction, medical expenses include insurance premiums paid for policies that cover medical and dental care. The medical and dental expenses deduction is generally limited to the amount of medical and dental expenses that exceeds 10 percent of a taxpayer's adjusted gross income. However, if a taxpayer (or his spouse) was born before January 2, 1949, he is permitted to deduct the amount of medical and dental expenses that exceeds 7.5 percent of adjusted gross income.

Additionally, Virginia allows an income tax deduction equal to the amount an individual pays annually in premiums for long-term health care insurance. This deduction may only be claimed if the individual has not claimed a federal income tax deduction for such premium payments.

### Proposed Legislation

This bill would eliminate the requirement that an individual must have earned income of at least \$20,000 and federal adjusted gross income of no more than \$30,000 to be eligible to claim a deduction for premiums paid annually for a prepaid funeral insurance policy or medical or dental insurance.

This bill would be effective for taxable years beginning on or after January 1, 2014.

cc : Secretary of Finance

Date: 1/14/2014 MTH  
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