DEPARTMENT OF TAXATION
2015 Fiscal Impact Statement

1. Patron Janet D. Howell

2. Bill Number SB 1009
House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. Committee House Finance

4. Title Income Tax Deduction; Long-Term Health Care Insurance Premiums.

5. Summary/Purpose:

This bill would reduce the deduction for long-term health care insurance premiums payments from 100% to 50% of the amount an individual pays annually in premiums for long-term health care insurance.

This bill would be effective for taxable years beginning on and after January 1, 2015.

This is a Secretary of Finance bill.

6. Budget amendment necessary: No.

7. No Fiscal Impact (See Line 8).

8. Fiscal implications:

Administrative Costs – Department of Taxation

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

Revenue Impact

This bill would increase General Fund revenues by $9.4 million in Fiscal Year 2016, $6.3 million in Fiscal Year 2017, $6.4 million in Fiscal Year 2018, $6.5 million in Fiscal Year 2019, $6.7 million in Fiscal Year 2020, and $6.7 million in Fiscal Year 2021. However, no budget amendment is necessary because this revenue impact is included in the Introduced Executive Budget.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Treatment of Long-Term Care Insurance

Federal law allows an itemized deduction for long-term care insurance premiums. An individual can deduct only the part of the medical and dental expenses, including long-term care insurance that is more than 10 percent of the individual's adjusted gross income. An individual can deduct long-term care insurance premiums paid for himself, a spouse, or a dependent.

The amount of qualified long-term care premiums that can be deducted is limited based on age. For 2014, if the individual for whom the policy was purchased is under the age of 40 the maximum allowable deduction is $370, for ages 41 to 50, the maximum is $700, for ages 51 to 60, the maximum is $1,400, for ages 61 to 70, the maximum is $3,720, and for individuals age 71 and over, the maximum is $4,660.

In general, benefits from long-term care insurance policies are excludable from federal gross income. Thus, Virginia would not tax the benefits. However, if the amount received from periodic payments exceeds a per diem limitation, the excess is includible in gross income, and would also be taxed by Virginia. For 2014, the per diem limitation consists of the greater of $330 per day or the costs incurred for qualified long-term care services provided for the insured, minus the payments received as reimbursements, through insurance or otherwise, for qualified long-term care services provided for the insured during such period.

Virginia Long-Term Care Insurance Tax Credit

Prior to Taxable Year 2014, Virginia allowed taxpayers to claim a tax credit against their individual income tax liability equal to 15 percent of the qualified long-term care insurance premiums paid by the taxpayer during the taxable year pursuant to an insurance policy entered into on or after January 1, 2006. In order to qualify, the premiums paid by a taxpayer were required to be for long-term care insurance coverage for himself. Further, total tax credits allowed over the life of any policy could not exceed 15 percent of the amount of premiums paid for the first 12 months of coverage. The tax credit could not be claimed to the extent that the individual has claimed a Virginia deduction for long-term care insurance premiums.

Current Law

Under current law, taxpayers may deduct 100% of any long-term health care insurance premiums payments made during the taxable year. The deduction may not be claimed during the taxable year if the taxpayer has claimed a federal income tax deduction for such taxable year for long-term health care insurance premiums paid by him.

In its "Review of the Effectiveness of Tax Preferences" (2012 Senate Document No. 4), the Joint Legislative Audit and Review Commission ("JLARC") found that the Long-Term Care Insurance Tax Credit did not significantly reduce costs for most individuals. Additionally, JLARC found that, for some individuals, particularly those with lower incomes, the tax benefit may not be enough to make this type of insurance affordable or promote its purchase. Following JLARC's analysis in its recent study of tax preferences that found the Virginia tax preferences for long-term care insurance to be ineffective, the General Assembly repealed the similar Long-Term Care Insurance Tax Credit during the 2013 session.

Proposed Legislation

This bill would reduce the deduction for long-term health care insurance premiums payments from 100% to 50% of the amount an individual pays annually in premiums for long-term health care insurance.

This bill would be effective for taxable years beginning on or after January 1, 2015.

cc : Secretary of Finance

Date: 2/10/2015 CWM
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