

DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement

REVISED
1/24/08

1. **Patron** Vivian E. Watts

2. **Bill Number** HB 1049

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Income Tax Deduction for Licensed Medical
Caregivers

Second House:

In Committee

Substitute

Enrolled

5. **Summary/Purpose:**

As amended, this bill would create an income tax deduction for the first \$10,000 of income earned by licensed medical caregivers for providing medical care to individuals in the homes of such individuals. The deduction would be reduced by \$1 for every \$2 that the taxpayer's federal adjusted gross income exceeds \$40,000.

This bill would be effective for taxable years beginning on or after January 1, 2008.

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

7. **Budget amendment necessary:** Yes. (See Line 8.)
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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 revenue impact of this bill is unknown, but substantial. According to statistics published by the Department of Health Professions, there are 127,342 nurses (including nurse practitioners), 42,667 nurse's aides, 4,859 physical therapists, and 2,539 occupational therapists, for a total of 177,407 individuals potentially eligible for this deduction in Virginia. If each of these licensed medical caregivers claimed the \$10,000 deduction and were subject to the 5.75% tax rate, the negative revenue impact would be approximately \$102 million per year.

However, using the average salaries in Virginia of the qualifying professions, those individuals whose incomes would be over \$60,000 per year can be excluded; and the deduction for those whose incomes would be between \$40,000 and \$60,000 per year can be limited. If it is then assumed that 10% of the salary for the eligible taxpayers is earned from providing in-home medical care services, there would be a negative revenue impact of approximately \$13.6 million per year beginning in FY 2009.

The table below outlines the types of medical care giving occupations assuming that the annual salary is equal to federal adjusted gross income.

Occupational Title	Annual Salary, All Industries, VA 2006	Amount earned for in-home services (Assume 10%)	Eligible Deduction	Number of Licenses	Revenue Loss (\$M)
Registered Nurses	\$58,022	\$5,802	\$0	85,993	\$0.00
Licensed Practical and Licensed Vocational Nurses	\$36,897	\$3,690	\$3,690	41,349	\$8.77
Nursing Aides, Orderlies, and Attendants	\$22,545	\$2,254	\$2,254	42,667	\$4.81
Occupational Therapists	\$64,593	\$6,459	\$0	2,539	\$0.00
Physical Therapists	\$69,926	\$6,993	\$0	4,859	\$0.00
Grand Total				177,407	\$13.58

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Other States

A brief review conducted by TAX indicates that there 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. TAX did not find any tax preferences available to those who are paid to provide care to individuals in the homes of such individuals.

Proposal

This bill would create an income tax deduction for the first \$10,000 of income earned by licensed medical caregivers for providing medical care to individuals in the homes of such individuals. The deduction would be reduced by \$1 for every \$2 that the taxpayer's federal adjusted gross income exceeds \$40,000.

A "licensed medical caregiver" would be defined as an individual who is licensed as a nurse, physical therapist, occupational therapist, certified nursing assistant, or nurse practitioner, to provide medical-related services or assistance with activities of daily living. The term would not include a paid companion or individual providing housekeeping services.

This bill would be effective for taxable years beginning on or after January 1, 2008.

cc : Secretary of Finance

Date: 1/26/2008 TG
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