

DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement

REVISED
1/14/08

1. **Patron** Vivian E. Watts
2. **Bill Number** HB 1050
House of Origin:
 X **Introduced**
 Substitute
 Engrossed
3. **Committee** House Finance
4. **Title** Individual Income Tax: In-Home Health Care
Tax Credit
- 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 for in-home health care for which there is no reimbursement and for which no other deduction has been taken. The credit would be reduced by \$1 for every \$2 that the individual's federal adjusted gross income exceeds \$50,000 for single taxpayers and \$75,000 for married taxpayers. 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, 2008.

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

The magnitude of the revenue loss associated with this bill is unknown, but potentially significant. Because of the broad eligibility criteria for this credit and the large number of possible qualifying expenses, it is possible that many individuals could use this credit to eliminate their entire tax liability.

To implement this credit, a reduction of an equal amount of general fund support from other areas in the introduced budget would be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant general fund support.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

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 for in-home health care for which there is no reimbursement and 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 amount of the credit could not exceed the individual's income tax liability.

In-home health care expenses would include unreimbursed medical-related expenses, expenses related to assistance with activities of daily living, 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 explained in the instructions for the individual income tax return.

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

Similar Legislation

HB 1049 would create an individual income tax deduction for licensed medical caregivers who provide medical care to individuals in the homes of such individuals.

cc : Secretary of Finance

Date: 1/15/2008 TG
HB1050F161