

DEPARTMENT OF TAXATION 2013 Fiscal Impact Statement

1. **Patron** Harry R. Purkey

3. **Committee** House Finance

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

2. **Bill Number** HB 2167

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

The Department understands that the Patron will offer a line amendment for this bill. This fiscal impact statement is drafted based on the adoption of this amendment.

This bill would allow an income tax deduction equal to the amount an individual age 66 or older with earned income of at least \$20,000 and federal adjusted gross income not in excess of \$30,000 for the year pays annually in premiums for (i) a life 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. The deduction would not be allowed for any portion of such premiums for which the taxpayer has been reimbursed, has claimed a deduction for federal income tax purposes, has claimed another Virginia income tax deduction or subtraction, or has claimed a federal income tax credit or any Virginia income tax credit.

This deduction would be effective for taxable years beginning on or after January 1, 2013.

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

The Department will provide specific administrative costs on any legislation that is not “routine.” Additionally, the Department 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, the Department will identify the costs at that time.

Revenue Impact

This bill would have a minimal, but unknown, negative impact on General Fund revenues beginning in Fiscal Year 2014. The extent of the impact would depend on the number of taxpayers who are age 66 or older with earned income of at least \$20,000 and federal adjusted gross income not in excess of \$30,000 for the year, as well as the amount of premiums paid by such individuals.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Deductions for Insurance Premiums

Taxpayers who claim itemized deductions may claim a federal income tax deduction for medical and dental expenses to the extent that such expenses exceed 10 percent of the taxpayer’s adjusted gross income (“AGI”). Medical insurance premiums that provide reimbursement or indemnity for medical care are included in the definition of “medical care” and, accordingly, may be deducted to the extent that all medical expenses exceed the threshold amount. The deduction may be claimed for expenses paid during the taxable year for the medical care of the taxpayer, his spouse, or a dependent.

Another federal income tax deduction is allowed for the insurance costs of self-employed individuals. This deduction is equal to the amount paid during the taxable year for insurance that constitutes medical care for the taxpayer, the taxpayer’s spouse, the taxpayer’s dependents, and any child of the taxpayer who is younger than 27 at the end of the taxable year. This deduction is not allowed to the extent that the amount of the deduction exceeds the taxpayer’s earned income, nor can it be claimed if the taxpayer is eligible to participate in any subsidized health plan maintained by any employer of the taxpayer or the taxpayer’s spouse or dependents. Additionally, any expenses deducted using this deduction may not be taken into account when determining the amount of the medical expenses deduction.

The self-employed health insurance deduction is taken prior to computing AGI. Because Virginia individual income taxes are based on federal AGI, this means that this federal deduction reduces a taxpayer’s Virginia income tax liability.

Federal Health Coverage Tax Credit

A refundable income tax credit is allowed in an amount equal to 72.5 percent of the amount a taxpayer pays for qualified health insurance coverage for himself or for qualifying family members. This credit may only be claimed by eligible trade adjustment allowance ("TAA") recipients, eligible alternative TAA recipients, and eligible Pension Benefit Guaranty Corporation ("PBGC") pension recipients.

Federal Definition of "Earned Income"

"Earned income" is defined in IRC § 32(c)(2) as wages, salaries, tips, and other employee compensation includible in gross income for the taxable year plus the amount of the taxpayer's net earnings from self-employment for the taxable year, as determined with regard to the federal deduction for self-employment taxes.

Virginia Law

For Virginia income tax purposes, individual taxpayers are permitted to claim a deduction equal to the amount of certain itemized deductions claimed on the federal income tax return. Such deductions include the federal medical expenses deduction.

Virginia allows an individual taxpayer to claim the Long-Term Care Insurance Tax Credit in an amount equal to 15 percent of the 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. To qualify, the premiums must be for long-term care insurance coverage for the taxpayer. Total credits allowed over the life of any policy cannot exceed 15 percent of the amount of premiums paid for the first 12 months of coverage.

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 to the extent that the individual has not claimed a deduction for federal income tax purposes or the Long-Term Care Insurance Tax Credit.

Proposed Legislation

This bill would allow an income tax deduction equal to the amount an individual age 66 or older with earned income of at least \$20,000 and federal adjusted gross income not in excess of \$30,000 for the year pays annually in premiums for (i) a life 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.

For purposes of this deduction, "earned income" would be defined as wages, salaries, tips, and other employee compensation includible in gross income for the taxable year plus the amount of the taxpayer's net earnings from self-employment for the taxable year, as determined with regard to the federal deduction for self-employment taxes.

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

This deduction would be effective for taxable years beginning on or after January 1, 2013.

Similar Legislation

House Bill 2047 would repeal the Long-Term Care Insurance Tax Credit and clarify that the individual income tax deduction for long-term health care insurance premiums would be disallowed if the individual has claimed a federal income tax deduction for such premium payments.

cc : Secretary of Finance

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