

DEPARTMENT OF TAXATION

2016 Fiscal Impact Statement

1. **Patron** Brenda L. Pogge

2. **Bill Number** HB 345

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax; Deduction for Certain Medical Care Expenses

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow a taxpayer to claim an itemized deduction for certain medical and dental expenses in excess of 7.5 percent of federal adjusted gross income if the taxpayer or the taxpayer's spouse is age 65 or older. Such provision would allow taxpayers to continue benefitting from the enhanced deduction for taxpayers age 65 or older for Virginia income tax purposes even after the enhanced federal provision expires.

This bill would be effective for taxable years beginning on or after January 1, 2017.

6. **Budget amendment necessary:** Yes.

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2015-16	\$0	GF
2016-17	(\$3.0 million)	GF
2017-18	(\$11.5 million)	GF
2018-19	(\$12.2 million)	GF
2019-20	(\$12.8 million)	GF
2020-21	(\$13.5 million)	GF
2021-22	(\$14.1 million)	GF

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

The enhanced federal deduction for certain medical expenses is set to expire on December 31, 2016, unless Congress extends it. Assuming that such enhanced federal

provisions expire on December 31, 2016, this bill would have a negative General Fund revenue impact of \$3.0 million in Fiscal Year 2017, \$11.5 million in Fiscal Year 2018, \$12.2 million in Fiscal Year 2019, \$12.8 million in Fiscal Year 2020, \$13.5 million in Fiscal Year 2021, and \$14.1 million in Fiscal Year 2022.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Deduction for Certain Medical Expenses

For federal income tax purposes, a taxpayer may claim an itemized deduction for certain medical and dental expenses paid on behalf of himself or herself, his or her spouse, and his or her dependents. The deduction is equal to the amount by which the taxpayer's qualifying medical and dental expenses exceed 10 percent of his or her adjusted gross income. For taxable years beginning on or after January 1, 2013 and before January 1, 2017, a taxpayer who is age 65 or older or with a spouse age 65 or older may claim an enhanced deduction equal to the amount by which the taxpayer's qualifying medical and dental expenses exceed 7.5 percent of his or her adjusted gross income.

For purposes of the deduction, qualifying medical and dental expenses include, but are not limited to, the following:

- Payments of fees to doctors, dentists, surgeons, chiropractors, psychiatrists, psychologists, and nontraditional medical practitioners;
- Payments for in-patient hospital care or residential nursing home care;
- Payments for certain transportation primarily for and essential to medical care; and
- Payments for certain insurance premiums.

Qualifying medical and dental expenses do not include any such expenses that were reimbursed, whether such reimbursement was paid directly to the taxpayer or to the doctor, hospital, or other medical provider.

Virginia Itemized Deductions

The starting point for determining an individual taxpayer's Virginia taxable income is his or her federal adjusted gross income. A taxpayer who itemizes deductions for federal income tax purposes is generally allowed to claim such deductions for Virginia income tax purposes. Because no provision of Virginia law disallows the deduction, a taxpayer who claims the federal deduction for certain medical expenses may claim such deduction on his or her Virginia individual income tax return.

Proposed Legislation

This bill would allow a taxpayer to claim a Virginia itemized deduction for certain medical and dental expenses in excess of 7.5 percent of federal adjusted gross income if the taxpayer or the taxpayer's spouse is age 65 or older. Such provision would allow taxpayers to continue benefitting from the enhanced deduction for taxpayers age 65 or older for Virginia income tax purposes even after the enhanced federal provision expires.

This bill would require the Department to develop and publish guidelines, except from the Administrative Process Act, implementing the provisions of this act.

This bill would be effective for taxable years beginning on or after January 1, 2017.

cc : Secretary of Finance

Date: 1/30/2016 MTH
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