

Fiscal Estimate - 2003 Session

Original Updated Corrected Supplemental

LRB Number 03-1597/1		Introduction Number AB-138	
Subject Individual income tax deduction for long term care savings accounts			
Fiscal Effect State: <input type="checkbox"/> No State Fiscal Effect <input checked="" type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Create New Appropriations <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Decrease Costs			
Local: <input type="checkbox"/> No Local Government Costs <input checked="" type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory			
5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts			
Fund Sources Affected <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		Affected Ch. 20 Appropriations 20.566(1)(a)	
Agency/Prepared By DOR/ Karyn Kriz (608) 261-8984		Authorized Signature Dennis Collier (608) 266-5773	Date 3/24/2003

Fiscal Estimate Narratives

DOR 3/24/2003

LRB Number	03-1597/1	Introduction Number	AB-138	Estimate Type	Original
Subject					
Individual income tax deduction for long term care savings accounts					

Assumptions Used in Arriving at Fiscal Estimate

This bill would allow an individual to establish a long-term care expenses account for the person and his or her spouse. The account holder may deduct annually from federal adjusted gross income up to \$2,000 in deposits made to the account on behalf of the individual and \$2,000 in deposits made on behalf of the spouse if the account is used exclusively to pay their long-term care expenses. No deduction is allowed when the value of the account exceeds \$100,000. All gains that accrue to the account are tax-exempt if the gains are redeposited into the account.

If any amount is withdrawn from the account and used for purposes other than long-term care expenses for the individual and his or her spouse, the account holder must pay a penalty equal to 10% of any accumulated gain that has accrued to the account from the time the account was opened. The account holder must also pay taxes on any gain accrued to the account in the year which an improper withdrawal occurs. These provisions do not apply after the death of the account holder.

About 25,000 filers claimed a deduction for long-term care insurance premiums on their 2001 individual income tax returns. Assuming a similar number of filers open a long-term care expenses account and an average deduction of \$2,100, based on the deduction claimed for long-term care insurance premiums, these filers would deduct an estimated \$52.5 million annually (25,000 x \$2,100). Assuming an average marginal tax rate of 5.5%, the annual revenue loss for the deduction would be about \$2.888 million (\$52.5 million x .055). Assuming an interest rate of 1.5%, the earnings on deposits of \$52.5 million would be \$788,000 (\$52.5 million x .015) and the revenue loss from not taxing these earnings initially would be about \$43,000 (\$788,000 x .055). The total revenue loss for the deduction and the exemption for earnings on deposits would be \$2.93 million.

The Department would incur additional annual auditing, taxpayer assistance, and printing and postage costs of \$71,300.

Long-Range Fiscal Implications

The annual revenue loss on earnings would grow over time as the total amount in long-term accounts grows with additional deposits, net of withdrawals. This revenue loss will also be larger as interest rates return to more typical levels from the current low rates.

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
Individual income tax deduction for long term care savings accounts			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$63,200	
	(FTE Position Changes)		
	State Operations - Other Costs	8,100	
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$71,300	\$
B. State Costs by Source of Funds			
	GPR	71,300	
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-2,930,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-2,930,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$71,300	\$
	NET CHANGE IN REVENUE	\$-2,930,000	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Karyn Kriz (608) 261-8984		Dennis Collier (608) 266-5773	3/24/2003