

Fiscal Estimate Narratives

DOR 11/21/2005

LRB Number	05-2800/1	Introduction Number	AB-816	Estimate Type	Original
Description Tax-exempt accounts for health care expenditures for an individual's parents					

Assumptions Used in Arriving at Fiscal Estimate

This bill would create a parental assistance health care expenses account that a sponsor (an adult with at least one living parent) could use to pay for health care expenses for the parent. The beneficiary of the account must be a parent of the sponsor.

Under the bill, a sponsor could deduct from his or her federal adjusted gross income up to \$2,000 each year for each beneficiary up to a total of \$4,000 annually, for deposits to the account. All gains that accrue to the account can also be deducted if the gains are redeposited into the account.

Health care expenses that could be paid for through the account include medical and dental, prescription drugs, and convalescent or custodial care provided to the parent in his or her home or in an institutional or community-based setting or care for a chronic condition or terminal illness.

If a beneficiary incurs health care expenses, the bill or the receipt if the bill has been paid, is to be submitted to the financial institution (any bank, savings bank, savings and loan association, or credit union) where the account was established for payment or reimbursement.

If a withdrawal is made for purposes other than the allowed expenses, the sponsor or beneficiary must pay a penalty equal to 10% of any accumulated interest, dividends, or other gain that has accrued to the account from the time it was opened. Also, the sponsor or beneficiary must pay tax on any interest, dividends, or other gain that accrues to the account in the year in which an improper withdrawal occurs.

Upon the death of all account beneficiaries, the account shall terminate and any amount remaining shall be returned to the sponsor. If no sponsor of the account is alive, any remaining amount shall pass to the beneficiary's estate.

The number of individuals who would open a parental assistance health care expenses account is unknown. Assuming a marginal tax rate of 5.5% and a maximum annual contribution of \$4,000, a taxpayer would be eligible for a maximum deduction of approximately \$220. The bill is expected to decrease existing revenues, but the fiscal effect is unknown.

Long-Range Fiscal Implications