WISCONSIN STATE LEGISLATURE COMMITTEE HEARING RECORDS

2005-06

(session year)

Assembly

(Assembly, Senate or Joint)

Committee on Insurance (AC-In)

(Form Updated: 11/20/2008)

COMMITTEE NOTICES ...

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INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL ...

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- *Miscellaneous* ... *Misc*

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REP. TOWNSEND'S TESTIMONY ON AB 816
February 9, 2006

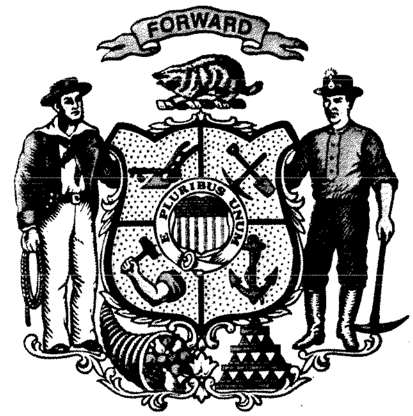
Thank you, Madam Chairman and committee members, for this opportunity to speak to you this morning about Assembly Bill 816, the Parental Assistance Savings System, or PASS.

As Chairman of the Committee on Aging and Long-Term Care, I have had many opportunities to see how many elderly people and their families struggle to pay for quality health care. I myself have an elderly mother who has begun to have serious health problems. As you may know, current tax law allows people who assist their parents to reduce their taxable income only if they provide more than half of their parents' financial support. This is not always possible, so children concerned about their elderly parents' health expenses often arrange their parents' finances in such a way that they qualify for Medicaid. This shifts their health care expenses to the general public.

AB 816 would encourage adult children to help their parents with their health and long-term care expenses by offering them a tax break without having to provide the majority of their parents' financial support. Under the bill, an individual would be able to set up a tax-exempt account at a participating financial institution and deposit money parents can then use to pay for certain health care expenses. The individual would then be able to reduce his or her taxable income by up to $2,000 per parent per year – up to $4,000 annually. Married couples would be able to reduce their taxable income by up to $8,000. The gains realized by these accounts would also be tax-exempt.

Following the creation of the account, either the child or the parent would be able to submit health care bills or receipts to the financial institution for payment or reimbursement from the account. Should either a parent or a child withdraw funds for the account for a non-permitted purpose, they would be liable for taxes on the gain accrued to the account that year, as well as for 10% of that gain.

I believe AB 816 provides a simple way for encouraging children with the means to help their elderly parents to do so while keeping Medicaid available to those who are truly in need, and I appreciate the committee's consideration of this proposal. Thank you for your time.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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

Assembly Insurance Committee Hearing, February 9, 2006

Assembly Bill 816 – Tax-Exempt Accounts for Healthcare Expenditures for an Individual's Parents (Representative Townsend)

Description of Current Law and Proposed Change

Under the bill, an adult child (sponsor) may establish an account at a financial institution for his or her parent to pay for health care expenses of the parent (beneficiary). The bill allows a sponsor to deduct up to $2,000 per beneficiary and up to $4,000 annually for deposits to the account. Only one account can be opened per beneficiary. It appears in the language of the bill that in the case of a married couple filing a joint return, each spouse could open accounts for each of their parents. Therefore, the maximum subtraction on a joint return could be $8,000 ($2,000 x 4).

Healthcare expenses that can 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.

Withdrawals from the account for purposes other than allowed purposes are subject to a penalty equal to 10% of any accumulated interest , dividends or other gain from the account, and the accumulated interest, dividends or other gain would be subject to tax.

Fairness/Tax Equity

- This bill could encourage taxpayers to save for medical expenses for their parents who may be unable to pay for those expenses themselves.

- However, the tax advantages provided by the bill are not limited to contributions made on behalf of beneficiaries who are unable to pay for the expenses.

Administrative Impact/Fiscal Effect

- The bill is expected to decrease existing revenues, but the fiscal effect is unknown. The number of people who would open one of these accounts 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.

- This bill places the burden on individual financial institutions to administer the accounts. This is in contrast to other accounts such as the Employee Reimbursement Accounts available to state employees which are administered by the Fringe Benefits Management Company, a private firm responsible for administering benefit plans around the nation.

- The bill could allow taxpayers to use a tax deduction to make a gift to a parent. For example, if an individual opens an account for his or her parents on December 31, 2006 and contributes $4,000 to the account ($2,000 for each parent) the individual could claim a $4,000 deduction on his or her 2006 Wisconsin income tax return. If the funds are withdrawn on January 2, 2007, only a minimal penalty would be paid and the individual would get a tax benefit of $260 ($4,000 x 6.5%).

- The department has several technical concerns related to the bill. In particular the bill is unclear 1) whether a beneficiary (the parent) could claim the $2,000 deduction and 2) whether it is the sponsor or the beneficiary who would be subject to the penalty and tax liability for withdrawals made for purposes other than eligible purposes. Please see the department's technical memorandum dated November 16, 2005, for more details.

DOR Position

- Technical changes are needed.

February 6, 2006

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