Wisconsin Department of Administration
Division of Executive Budget and Finance

# Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

| LRB Number 05-0830/1 | Introduction Number AB-57 |
|---|---|

**Subject**

Individual income tax deduction for long term care savings accounts

**Fiscal Effect**

**State:**

☐ No State Fiscal Effect
☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☒ Decrease Existing Revenues
- ☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
- ☐ Decrease Costs

**Local:**

☐ No Local Government Costs
☐ Indeterminate

1. ☐ Increase Costs — ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs — ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue — ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue — ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☐ Towns ☐ Village ☐ Cities
   ☐ Counties ☐ Others
   ☐ School Districts ☐ WTCS Districts

**Fund Sources Affected**

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

**Affected Ch. 20 Appropriations**

| Agency/Prepared By | Authorized Signature | Date |
|---|---|---|
| DOR/ Kirstin Nelson (608) 261-8984 | Rebecca Boldt (608) 266-6785 | 2/9/2005 |

**Fiscal Estimate Narratives**

**DOR 2/9/2005**

| LRB Number **05-0830/1** | Introduction Number **AB-57** | Estimate Type **Original** |
|---|---|---|
| **Subject**<br><br>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If any amount is withdrawn from the account and used for purposes other than long-term care expenses for the individual and his or her spouse, the account holder must pay a penalty equal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 27,000 filers claimed a deduction for long-term care insurance premiums on their 2003 individual income tax returns. Assuming a similar number of filers open a long-term care expenses account and an average deduction of $2,200, based on the deduction claimed for long-term care insurance premiums, these filers would deduct an estimated $59.5 million annually (27,000 x $2,200). Assuming an average marginal tax rate of 5.6%, the annual revenue loss for the deduction would be about $3.3 million ($59.5 million x .056). Assuming an interest rate of 2.6%, the earnings on deposits of $59.5 million would be $1,500,000 ($59.5 million x .026) and the revenue loss from not taxing these earnings initially would be about $84,000 ($1,500,000 x .056). The total revenue loss for the deduction and the exemption for earnings on deposits would be about $3.4 million.

The Department would incur additional annual costs of $59,400 for salaries and fringe benefits for audit purposes.

**Long-Range Fiscal Implications**

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# Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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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 | $59,400 | |
| (FTE Position Changes) | | |
| State Operations - Other Costs | | |
| Local Assistance | | |
| Aids to Individuals or Organizations | | |
| **TOTAL State Costs by Category** | **$59,400** | **$** |
| **B. State Costs by Source of Funds** | | |
| GPR | 59,400 | |
| 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, ets.)**

| | Increased Rev | Decreased Rev |
|---|---|---|
| GPR Taxes | $ | $-3,400,000 |
| GPR Earned | | |
| FED | | |
| PRO/PRS | | |
| SEG/SEG-S | | |
| **TOTAL State Revenues** | **$** | **$-3,400,000** |

**NET ANNUALIZED FISCAL IMPACT**

| | State | Local |
|---|---|---|
| NET CHANGE IN COSTS | $59,400 | $ |
| NET CHANGE IN REVENUE | $-3,400,000 | $ |

| **Agency/Prepared By** | **Authorized Signature** | **Date** |
|---|---|---|
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