Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Alquist | Analyst: LuAnna Hass | Bill Number: AB 64

Related Bills: See Prior Analysis | Telephone: 845-7478 | Amended Date: January 16, 2002

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Long-Term Care Insurance Deduction/FTB Report To Legislature Annually Regarding Deduction Utilization

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ________________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced December 4, 2000.

X FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 4, 2000, STILL APPLIES.

____ OTHER - See comments below.

SUMMARY

This bill would:

- allow taxpayers to deduct a percentage of the cost of long-term care (LTC) insurance from their gross income in computing their adjusted gross income for tax purposes, and

- require the Franchise Tax Board (FTB) to report annually to the Legislature on this deduction.

SUMMARY OF AMENDMENTS

The January 16, 2002, amendments would allow:

- the amount paid or incurred by the taxpayer for the cost of public employee long-term care insurance plans to qualify for the deduction under this bill, and
- taxpayers to include the amount paid or incurred for long-term care insurance for their domestic partner to qualify for the deduction under this bill.

Except for revised revenue estimates and department costs, the remainder of the department's analysis of the bill as introduced December 4, 2000, still applies. The following implementation and technical considerations still apply and are included below for convenience.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP	Brian Putler	1/30/02
____ SA	____ O	____ NAR		
____ N	____ OUA	X PENDING		

POSITION

Pending.

IMPLEMENTATION CONSIDERATIONS

This bill would require FTB to report annually to the Legislature the total number of taxpayers claiming the deduction, the adjusted gross income of those taxpayers, the total amount of the deductions claimed, and any other information the FTB deems useful to evaluate the deduction. The information requested would be difficult to provide, as the current return process does not include the capture of specific deductions and the corresponding dollar amounts.

To capture this information, a line would be added to the tax forms for the deduction amount. Implementation would require programming changes to capture the deduction, additional time to key the deduction, and an increase in taxpayer correspondence and phone calls received. Approximately 425,000 taxpayers would be eligible to claim this deduction.

TECHNICAL CONSIDERATIONS

This bill uses a term that is undefined, i.e., “long-term care insurance.” The absence of a definition to clarify this term could lead to disputes with taxpayers and could complicate the administration of this deduction. Amendments 1 and 2 would resolve this concern.

LEGISLATIVE HISTORY

AB 25 (Stats. 2001, Ch. 893) allows several existing taxpayer benefits for medical expenses and health insurance benefits to include a taxpayer's domestic partner and a domestic partner's dependents.

FISCAL IMPACT

For current year 2002/2003, the costs of implementation are estimated to be $694,000, or approximately 10.9 personnel years. For Budget year 2003/2004 the ongoing costs are estimated to be $224,000, or approximately 6.2 personnel years.

This analysis assumes that the addition of a line to the tax forms will not create the need for an additional page in the tax booklet. If other legislation is enacted and, combined with this legislation, requires more pages in the tax booklet, the costs of this legislation would increase.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 64 As Amended 1/16/02 [$ In Millions]					
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
-$6	-$12	-$20	-$29	-$42	-$56 *

* When the bill is fully implemented.

Enactment is assumed after June 30, 2002. Extending the proposed deduction to include domestic partners has a negligible incremental revenue effect. If a federal bill were also enacted to provide a deduction for AGI for LTC insurance premiums, state revenue losses would increase substantially because of taxpayer response. A deduction effectively reduces the annual cost of an LTC policy. If there were also a federal deduction, a taxpayer's policy cost would be further reduced from that of a state only deduction. As a result, the state would expect a substantially greater number of qualified taxpayers to acquire an LTC policy and claim a deduction.

Revenue Discussion:

The amount of deductible premiums and the marginal tax rate of taxpayers with policies in force would determine the revenue impact of this bill.

Long-term insurance plans of public employees had been considered in the revenue estimate for the bill as introduced. Regarding the extension to domestic partners, as of the beginning of 2002, approximately 10,000 domestic partnership declarations had been filed with the Secretary of State. The number that would claim the proposed deduction and any resulting revenue loss would be negligible.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 64
As Amended January 16, 2002

AMENDMENT 1

On page 2, amend lines 29 to 38, as follows:

(b) For purposes of this section~~,~~:
(1) "Long-term care insurance" means insurance provided pursuant to a qualified long-term care insurance contract, within the meaning of Section 7702B of the Internal Revenue Code.
(2) "~~applicable~~ Applicable percentage" means:
~~(1)~~ (A) Twenty-five percent for any taxable year beginning on or after January 1, 2002, and before January 1, 2003.
~~(2)~~ (B) Forty percent for any taxable year beginning on or after January 1, 2003, and before January 1, 2004.
~~(3)~~ (C) Fifty-five percent for any taxable year beginning on or after January 1, 2004, and before January 1, 2005.
~~(4)~~ (D) Seventy percent for any taxable year beginning on or after January 1, 2005, and before January 1, 2006.

AMENDMENT 2

On page 3, amend lines 1 to 4, as follows:

~~(5)~~ (E) Eighty-five percent for any taxable year beginning on or after January 1, 2006, and before January 1, 2007.
~~(6)~~ (F) One hundred percent for any taxable year beginning on or after January 1, 2007.