Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Garcia | Analyst: Jane Tolman | Bill Number: AB 1523

Related Bills: See Prior Analysis | Telephone: 845-6111 | Amended Date: 05-15-2003

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Long Term Care Insurance

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended February 21, 2003.

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

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended __________________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO __________________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED February 21, 2003. STILL APPLIES.

____ OTHER - See comments below.

SUMMARY

This bill would allow a credit to taxpayers who paid for long-term care insurance for any family member.

SUMMARY OF AMENDMENTS

The May 14, 2003, amendments would:

- remove the term "long-term care" from this credit,
- define "long-term care insurance" by reference to Internal Revenue Code (IRC) Section 7702B,
- require the taxpayer to provide to the Franchise Tax Board (FTB) upon request written verification of long-term care payments, the name of the individual receiving care, the name of the payor, and the period covered,
- limit the credit carryover period to six years, and
- allow the taxpayer to claim either the long-term care insurance credit or the existing caregiver credit for the same family member.

These changes are further discussed under THIS BILL.

The remainder of the department's analysis of this bill as introduced February 21, 2003, still applies.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP	Brian Putler	6/5/03
____ SA	____ O	____ NAR		
____ N	____ OUA	X PENDING		

THIS BILL

This bill would allow a tax credit of 25% of the amount paid or incurred by the taxpayer during the taxable year for the cost of long-term care insurance for any family member of the taxpayer.

"Long-term care insurance" means a long-term care insurance contract as defined in IRC Section 7702B. Included in a long-term care insurance contract are diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services.

Upon request, the taxpayer would provide written verification of long-term care to FTB. Written verification would include the name of the taxpayer, payments made for long-term care, the name of the individual receiving long-term care, and the time period of the long-term care.

A taxpayer that claims the caregiver credit would not be eligible to claim the long-term care insurance credit for that same family member.

This bill would allow the credit to be carried over to the following six taxable years.

POSITION

Pending.

TECHNICAL CONSIDERATION

This bill contains language for long-term care as defined in the IRC Section 7702B(c)(2)(B) as well as verification and payments for long-term care services. This language is no longer necessary as this bill addresses only long-term care insurance. According to the author's office the language for the long-term care was inadvertently left in the bill and will be removed when this bill is amended.

ECONOMIC IMPACT

<u>Revenue Estimate</u>

Based on data and assumptions discussed below, this bill would result in the following revenue losses.

Estimated Revenue Impact of AB 1523 As Amended 5/15/03 [$ In Millions]		
2003-04	2004-05	2005-06
-$200	-$230	-$240

The author's office has indicated that paragraphs (c) and (d) referencing eligibility for the credit and written verification should be ignored. These paragraphs are not applicable to the proposed credit as the bill was amended May 15, 2003.

Estimates above are roughly double that of the bill as introduced. As introduced, eligibility for the proposed credit of 100% was limited to any family member deficient in two out of six activities of daily living. In the initial year (2003), it was projected that nearly 120,000 individuals could potentially benefit from an average tax credit of $1,000. The May 15, 2003, amendments reduced the credit from 100% to 25% but increased eligibility for the credit to a much larger universe of taxpayers. As amended, in the initial year, it is projected that 400,000 individuals could potentially benefit from an average tax credit of $425.

Revenue Discussion

The revenue impact of this bill as amended would be determined by amounts incurred by taxpayers for long-term care insurance premiums for any family member and the amount of credits that could be applied to reduce tax liabilities.

The estimate was derived by (1) projecting the net number of policies in force each year by California resident taxpayers (450,000 in 2003); (2) multiplying the number of policies by 25% times the average annual premium of $1,700; and (3) calculating and applying an "inducement to purchase" rate that increases incrementally each year.

Based on national data, the number of policies in force in California is projected to grow to roughly 450,000 by 2003 and 500,000 by 2005. An average annual premium of $1,700 is used for the estimate. According to industry contacts, most long-term care insurance premiums range from $1,000 to $3,000 annually. As the average credit is $425, it is assumed that credits are applied in the year generated.

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