Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Berg	Analyst:	Raul Guzman	Bill Number:	AB 298
Related Bills:	See Legislative History	Telephone:	845-4624	Introduced Date:	02/09/2005
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Long-Term Care Caregiver Credit

SUMMARY

This bill would extend the long-term caregiver credit six more years.

PURPOSE OF THE BILL

According to the author's office, the intent of this bill is to help eligible caregivers by extending the existing long-term care caregiver credit an additional six years.

EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would be effective immediately upon enactment. It would be operative for taxable years beginning on or after January 1, 2005, and before January 1, 2011.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

There is no similar federal credit; however, there are federal provisions providing deductions for the same expenditures eligible for the state credit.

Current federal law specifically allows an itemized deduction for unreimbursed medical expenses, including qualified long-term care insurance premiums, paid by a taxpayer. The medical expense deduction is only allowed to the extent that it exceeds 7.5% of the taxpayer's adjusted gross income (AGI).

Long-term care insurance premiums are deductible on a graduated scale based on the individual's age before the close of the taxable year. The amounts shown below are for 2004 taxable year, and these amounts are increased annually based on the medical care component of CPI.

Age of Individual	Maximum Deduction
40 or less	$260
More than 40 but less than 50	$490
More than 50 but less than 60	$980
More than 60 but less than 70	$2,600
More than 70	$3,250

Board Position:			Department Director	Date
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Current California law conforms to these federal tax provisions related to long-term care insurance premiums.

California law also allows a non-refundable tax credit to eligible caregivers. The credit is $500 for each qualifying individual who has been certified as needing long-term care. A qualifying individual may be the taxpayer, spouse of the taxpayer, or a qualified dependent, as defined. The credit is not allowed to any eligible caregiver whose AGI is $100,000 or more. Unused credits cannot be carried over to future years. This credit is allowed for taxable years beginning on or after January 1, 2000, and before January 1, 2005. The credit will be repealed December 1, 2005.

THIS BILL

This bill would extend the existing long-term caregiver credit for taxable years beginning on or before January 1, 2011. The credit would be repealed December 1, 2011. In addition, for taxable years beginning on or after January 1, 2005, the credit would be limited to eligible caregivers with AGI of less than $100,000, in the case of a married couple filing a joint return, and $50,000 in the case of all other individuals.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

TECHNICAL CONSIDERATIONS

There are two long-term caregiver credit sections that appear in the Revenue and Taxation Code, one enacted by AB 2871 (Stats. 2000, Ch. 105) and another enacted by AB 511 (Stats. 2000, Ch. 107).

- AB 2871 version of the credit included two AGI limitations. $100,000 for married filing joint and $50,000 for all other individuals.

- AB 511 provided one AGI limitation of $100,000 for all filing statuses. The enactment of AB 511 chaptered out the AGI limitations of AB 2871.

The author's staff has indicated that their intent is to extend the AB 511 version; therefore, this bill would need to be amended to reflect the author's intent.

LEGISLATIVE HISTORY

AB 2871 (Stats. 2000, Ch. 105), and AB 511 (Stats. 2000, Ch. 107) enacted the long-term care caregiver credit. The AGI limitations of AB 2871 were chaptered out by AB 511.

AB 247 (Walters 2005), and SB 139 (Margett 2005) would allow a credit to taxpayers that paid long-term care or long term care insurance for themselves or their parents.

OTHER STATES' INFORMATION

The states surveyed include *Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Review of *Illinois, Massachusetts, Michigan*, *Minnesota*, and *New York* laws found no comparable tax credits.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Based on historical data, the revenue loss from this bill is as follows:

Estimated Revenue Impact of 298 Effective Tax Years BOA 1/1/05 Assumed Enactment Date After 6/30/05 (In Millions)		
2005/06	**2006/07**	**2007/08**
- $3	- $3	- $3

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The long-term care caregiver credit has been claimed for the 2002 and 2003 taxable years at $2.5 million per year. By extending the credit's sunset date, it is anticipated that annual credits claimed will continue at the current level, in addition to growth with an average of 5% per year. Therefore, revenue losses will approximate $3 million per year, through 2007/08.

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