ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author:	Conway	Analyst:	Scott McFarlane	Bill Number:	AB 1831
Related Bills:	None	Telephone:	845-6075	Introduced Date:	February 18, 2014
		Attorney:	Bruce Langston	Sponsor:	

SUBJECT: Medical Insurance Premiums Deduction

SUMMARY

This bill would, under the Personal Income Tax Law, generally allow individuals to deduct their medical insurance premiums.

RECOMMENDATION

No position.

REASON FOR THE BILL

The reason for the bill is to level the playing field for individuals who are not employed by large companies by allowing them to fully deduct medical insurance premiums, and is intended specifically as a means to address the increased costs on individuals who are affected by the Affordable Care Act.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2014.

ANALYSIS

FEDERAL/STATE LAW

Federal Law

IRC section 213 generally allows individuals to deduct unreimbursed medical expenses as an itemized deduction, but only to the extent that such expenses exceed 10 percent of adjusted gross income (AGI). However, for the years 2013 through 2016, if either an individual or an individual's spouse turns 65 before the end of the taxable year, the AGI threshold is 7.5 percent, meaning that such individuals are allowed an itemized deduction for unreimbursed medical expenses to the extent that such expenses exceed 7.5 percent of AGI for those years. Beginning in 2017, the AGI threshold is 10 percent for all individuals.

Board Position:			Executive Officer	Date
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Expenses deductible as unreimbursed medical expenses are amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body, or transportation primarily for and essential to such medical care, for amounts paid for medical insurance that covers such medical care (including essential transportation and amounts paid as premiums for Medicare Part B supplemental medical insurance), and for long-term-care services.

State Law

California conforms to the federal itemized deduction for unreimbursed medical expenses, modified to provide the AGI threshold is 7.5 percent for all individuals.[1]

THIS BILL

This bill would allow a deduction in computing an individual's California AGI for the amounts paid during the taxable year to purchase medical care insurance. Medical care insurance would generally mean medical care insurance as defined in IRC section 213(d)(1)(D), except that it would not include Medicare Part B supplemental medical insurance or insurance for long-term-care services. In other words, medical care insurance would generally mean amounts paid for an insurance plan that covers the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body, and for transportation primarily for and essential to such medical care.

Individuals would be allowed to choose between deducting their medical insurance premiums under this newly-proposed deduction or as an itemized deduction for medical expenses subject to the 7.5-percent-of-AGI threshold.

IMPLEMENTATION CONSIDERATIONS

This bill would not significantly impact the department's programs or operations.

OTHER STATES' INFORMATION

The states surveyed include *Florida, 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. A review of these states' laws found that *Massachusetts*, *Minnesota*, and *New York* allow the same itemized deduction for medical expenses, including medical insurance premiums, that is allowed under federal law. *Illinois* and *Michigan* do not allow itemized deductions, and do not allow individuals to deduct medical expenses. *Florida* does not impose income tax on individuals, so a comparison to *Florida* is not relevant.

FISCAL IMPACT

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

[1] Under R&TC section 17201, California conforms to IRC section 213, relating to medical, dental, etc., expenses, as of the "specified date" of January 1, 2009. Because the medical-expense deduction federal AGI threshold was increased from 7.5 percent to 10 percent after the January 1, 2009, "specified date" of conformity to federal law, California does not conform to that increase.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB 1831 As Introduced on February 18, 2014 For Taxable Years Beginning On or After January 1, 2014 Assumed Enactment After June 30, 2014 ($ in Millions)		
2014-15	2015-16	2016-17
- $470	- $550	- $600

SUPPORT/OPPOSITION

Support: Unknown.

Opposition: Unknown.

ARGUMENTS

Proponents: Those in support of this bill may argue that it would provide parity between individuals who have employer-provided medical insurance and those who purchase medical insurance with after-tax dollars.

Opponents: Those in opposition to this bill may argue that it should be expanded to allow individuals to deduct all medical expenses without a threshold limitation, instead of limiting the proposed deduction to medical insurance premiums.

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