

ANALYSIS OF ORIGINAL BILL

Author: Poochigan Analyst: Roger Lackey Bill Number: AB 2330

Related Bills: See Legislative History Telephone: 845-3627 Introduced Date: 02-19-98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Medical Care Expenses Deduction/Reduces Amount To Exceed AGI to 2% Pro Rated Over 5 Years

SUMMARY

Under the Personal Income Tax Law, this bill would reduce the percentage of medical expenses that may be deducted from those exceeding 7.5% of adjusted gross income to those exceeding 2% of adjusted gross income over a five year period. The reduction would be phased in over five years.

EFFECTIVE DATE

This bill would be effective for taxable years beginning on or after January 1, 1998.

LEGISLATIVE HISTORY

AB 2267 (1998), AB 3980 (89/90)

SPECIFIC FINDINGS

Current **federal and state law** provide that a taxpayer may deduct as an itemized deduction the expenses paid during the taxable year, that are not compensated by insurance, for the medical care of the taxpayer, his spouse, or a dependent, to the extent that the expenses exceed 7.5% of adjusted gross income.

For taxable years beginning on or after January 1, 1983, and ending before January 1, 1987, a taxpayer was allowed to deduct medical expenses to the extent that the expenses exceeded 5% of the taxpayer's adjusted gross income.

For taxable years prior to 1983, a taxpayer was allowed to deduct medical expenses to the extent that the expenses exceeded 3% of the taxpayer's adjusted gross income. In addition, a taxpayer was allowed to deduct one-half of the medical insurance expense incurred, but not to exceed a maximum of \$150.

This bill would reduce the adjusted gross income percentage threshold requirement for medical expenses from 7.5% to 2% over five years. The reduced percentage

DEPARTMENTS THAT MAY BE AFFECTED:

STATE MANDATE

GOVERNOR'S APPOINTMENT

Board Position:

S O
 SA OUA
 N NP
 NA NAR
 X PENDING

Agency Secretary Position:

S O
 SA OUA
 N NP
 NA NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved
Position Disapproved
Position Noted

Department Director	Date	Agency Secretary	Date	By:	Date
G. Alan Hunter	3/24/98				

would be 6.4% for 1998; 5.3% for 1999; 4.2% for 2000; 3.1% for 2001; and 2% for 2002 and future years.

Policy Considerations

This bill would create a difference between federal and California tax law. As a result, the complexity of tax return preparation would increase for the taxpayer.

Implementation Considerations

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

FISCAL IMPACT

Departmental Costs

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

Revenue Estimate

This proposal is estimated to impact PIT revenue as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 1997 Enactment Assumed After June 30, 1998 \$ Millions			
1998-9	1999-0	2000-01	2001-02
(\$40)	(\$70)	(\$130)	(\$215)

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 revenue impact for this bill would be determined by those individuals who incur medical expenses and would itemize their deductions, the cost of medical expenses, and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in several steps. First, by using the Department's PIT Model, the 7.5% floor was reduced to 6.4% on medical expenses by those taxpayers who currently claim medical deductions, generating approximately an additional \$17 million tax loss for 1998. Second, the total amount was then calculated at the various threshold amounts. Third, by using the Department's PIT Model and national averages, medical expenses were imputed to all other taxpayers in the amount of \$1,155 per person (doubled if joint filers), \$575 per dependent, and \$3,115 for seniors based on national averages, generating approximately an additional \$14 million tax loss for 1998, at a 6.4% floor. Fourth, the total deductions

were then calculated at the various threshold amounts. Fifth, based on the Department PIT model, it was assumed that 100% of current taxpayers with medical expenses would claim the remaining expenses because of the reduction in the threshold. To allow for a learning lag for some filers, it was assumed that 50% of the other taxpayers (new claimants) would actually claim qualified medical expenses in the first year (1998). It is anticipated that this percentage for the new group of taxpayers would increase up to 80% over five years. The initial 1998-9 fiscal year estimate above includes all of the 1998 year impact plus 10% of the 1999.

BOARD POSITION

Pending.