



Bill Analysis

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Sponsor:

Bill Number: AB 243

Related Bills: See Legislative
History

Amended: January 3, 2022,
and January 12, 2022

SUBJECT

Modification to the California Medical Expense Deduction

SUMMARY

The bill would, under the Personal Income Tax Law (PITL), reduce the percentage threshold that medical and dental expenses must exceed to be deductible from 7.5 to 4 percent of federal adjusted gross income (AGI).

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The January 3, 2022, amendments added operative dates which resolved the previous technical consideration.

The January 12, 2022, amendments changed the federal percentage above AGI threshold from 10 percent to 7.5 percent.

REASON FOR THE BILL

To help Californians pay for their health care premiums and allow them to deduct more of their health care expenses.

ANALYSIS

This bill would amend PITL to reduce the percentage threshold that medical and dental expenses must exceed to be deductible from 7.5 to 4 percent of federal adjusted gross income.

This bill would also require the Franchise Tax Board (FTB) to provide an anonymized report to the Assembly Committee on Revenue and Taxation and the Senate Committee on Governance and Finance reporting the number of taxpayers that claimed the deduction, the total amount, in dollars, of deductions claimed by year for each taxable year beginning on or after January 1, 2015. This report is due on or before February 1, 2026.

Amended January 3, 2022, and January 12, 2022

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, 2022, and before January 1, 2027.

Federal/State Law

Itemized Deductions – Unreimbursed Medical and Dental Expenses

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.

California has modified conformity to the federal itemized deduction for unreimbursed medical expenses as of January 1, 2015. California law modifies the federal threshold of 10 percent of federal AGI by reducing the threshold, for California tax purposes, to 7.5 percent of the federal AGI.

Implementation Considerations

None noted.

Technical Considerations

California conforms to the Internal Revenue Code (IRC) as of January 1, 2015, with modifications. The version of IRC section 213 in effect as of that date allows a deduction for medical and dental expenses that exceed 10 percent of adjusted gross income. This threshold was amended to 7.5 percent on December 27, 2020, but California does not conform to this change. It is recommended that 7.5 percent be replaced with 10 percent to accurately reflect California's conformity to the IRC as of January 1, 2015.

Policy Considerations

None noted.

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LEGISLATIVE HISTORY

AB 782 (Acosta, et al. 2017/2018) would have allowed a deduction in computing an individual’s AGI for the amounts paid during the taxable year to purchase medical care insurance, or to pay for transportation primarily for and essential to such medical care. AB 782 did not pass out of the Assembly Revenue and Taxation Committee by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

FISCAL IMPACT

The department’s costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 243 as Amended on January 12, 2022.
Assumed Enactment after June 30, 2022.

(\$ in Millions)

Fiscal Year	Revenue
2022-2023	-\$290
2023-2024	-\$200
2024-2025	-\$210

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

LEGAL IMPACT

None noted.

Amended January 3, 2022, and January 12, 2022

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

The Assembly Revenue and Taxation committee analysis dated January 7, 2022, lists the following support and opposition:

Support

Howard Jarvis Taxpayers Association

Opposition

California School Boards Association

ARGUMENTS

None on file.

LEGISLATIVE CONTACT

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