STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Gonzalez, et al.	Sponsor:	Bill Number: AB 1282
	Related Bills: See Legislative History	Introduced: February 21,2025

SUBJECT

Deduction for Out-of-Pocket Medical Expenses

SUMMARY

The bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2025, and before January 1, 2030, allow a deduction not exceeding $5,000 for out-of-pocket medical costs paid or incurred by a taxpayer during the taxable year.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to provide relief to taxpayers for rising healthcare costs within the state.

ANALYSIS

This bill would, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, allow a tax deduction in an amount equal to the out-of-pocket medical costs paid or incurred by the taxpayer, not to exceed $5,000, during the taxable year.

This bill would define “out-of-pocket medical costs” to mean costs for medical care paid by the taxpayer that are not covered by insurance, recovered, or reimbursed.

In addition, any deduction otherwise allowed for out-of-pocket medical costs under the PITL would be reduced by any deduction amount allowed under the bill.

This bill includes language to comply with Revenue and Taxation Code (RTC) section 41, which provides that the goal of the deduction is to provide taxpayers with an annual reprieve from the rising costs of health care within the state. The performance indicators used to evaluate the effectiveness of credit would be the number of taxpayers allowed the deduction, and the average dollar value of the deductions allowed.

The bill would require the Franchise Tax Board (FTB) to submit a report to the Legislature on or before December 1, 2026, and annually thereafter, that includes the number of taxpayers allowed the deduction and the average dollar value of the deductions allowed, to the extent the data is available.

The RTC section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

The deduction would be repealed on December 1, 2030.

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, 2025, and before January 1, 2030.

Federal/State Law

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. The deduction for unreimbursed medical expenses paid during the taxable year is that amount that exceeds 7.5% of a taxpayer's federal adjusted gross income (AGI).

Implementation Considerations

FTB has identified the following considerations and is available to work with the author’s office to resolve these and other considerations that may be identified.

The bill uses the undefined term, "medical care." For clarity, consider amending the bill to define if the term includes medical insurance costs or transportation, and if the term includes the medical costs paid or incurred by the taxpayer for the taxpayer, a spouse, a domestic partner, or any dependent.

The bill would allow a maximum itemized deduction of $5,000 after application of the 2% AGI limitation. Any remaining medical or dental expenses after application of the 2% limitation would be subject to the 7.5% of federal AGI limitation applicable to itemized deductions for medical and dental expenses pursuant to California's conformity with Internal Revenue Code section 213. If this is not the author's intent, the author may wish to amend the bill.

Additionally, taxpayers that file a return on a married filing separate basis would each qualify for the $5,000 deduction. It is common for taxpayers filing on a married filing separate to receive half the benefit amount as compared to that for a married filing jointly. If this is not the author's intent, the author may wish to amend the bill.

This bill requires the FTB to prepare a report on the performance of the deduction allowed by this bill no later than December 1, 2026, and each December 1 thereafter. If the author's intent is to be able to review a report that contains complete information for the 2025 taxable year, it is recommended that the report due date be extended to no earlier than July of 2027. For instance, the due date for the 2025 personal income tax return is April 15, 2026, and with extension, individuals could file as late as October 15, 2026. The FTB needs approximately six to eight months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than July of 2027 to provide information for the 2025 taxable year.

Technical Considerations

For consistency of terminology, in Section 17210(b)replace "paid" with "paid or incurred".

This bill refers to "out-of-pocket medical costs" several places in the bill. The author may want to remove "out-of-pocket" from "out-of-pocket medical costs" as it is unnecessary language.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 243 (Choi, 2021/2022) under the PITL, reduce the percentage threshold that medical and dental expenses must exceed to be deductible from 7.5% to 4% of federal AGI. AB 243 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB1282 as Introduced February 21, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$45
2026-2027	-$29
2027-2028	-$30

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.

Revenue Discussion

This bill would provide taxpayers with an alternative deduction option for medical and dental expenses. This proposal would allow up to $5,000 medical and dental expenses as a miscellaneous itemized deduction to the extent that all miscellaneous deductions exceed 2% of the taxpayer's federal AGI. Under current law the taxpayer can deduct all medical and dental expenses to the extent that they exceed 7.5% of the taxpayer's federal AGI.

Using 2022 Personal Income Tax data from the FTB, the amount medical and dental expense deductions that would be claimed under the proposal is calculated and compared to the deductions that could be claimed under current law. Because both options would be available to the taxpayer, it is assumed that the taxpayer would choose the option that affords them the highest deduction amount, resulting in an estimated additional $400 million in miscellaneous itemized deductions claimed in the 2022 taxable year. After adjusting for changes in the economy over time, it is estimated that taxpayers would report an additional $420 million in miscellaneous itemized deductions in the 2025 taxable year. Applying an average tax rate of 7% would result in an additional revenue loss of $28 million in the 2025 taxable year.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Assembly Committee on Revenue and Taxation analysis, dated May 5, 2025.

Support

None of file.

Opposition

California Federation of Teachers
California Teachers Association

ARGUMENTS

Assembly Committee on Revenue and Taxation analysis, dated May 5, 2025.

Proponents

None of file.

Opponents

In opposition, the California Federation of Teachers states, noting in part:

> California voters secured funding for public education via Proposition 98, which provides funding to our TK-12 schools and Community Colleges from revenues of the General Fund. Specifically, public education is funded mainly by the income tax, corporate income tax, sales and use tax, and property taxes. Tax credits, exemptions, and other expenditures, however, remove funding from public education. For every dollar that is provided in tax expenditures, approximately 40 cents of each dollar comes out of California's classrooms. For this reason, CFT opposes tax expenditure.

LEGISLATIVE CONTACT

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