F I S C A L   I M P A C T   R E P O R T

SPONSOR Chasey **ORIGINAL DATE** 1/31/08 **LAST UPDATED** 2/09/08 **HB** 382

SHORT TITLE Long Term Care Insurance Tax Deduction **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	**FY09**	**FY10**		
	($1,327.0)	($968.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with SB114

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Aging and Long Term Services (ALT)
Health Policy Commission (HPC)

SUMMARY

Synopsis of Bill

House Bill 382 creates a deduction from net income for the cost of long term care insurance premiums. The taxpayer, who must be a resident and not a dependent of another taxpayer, may claim the deduction if he or she has not already claimed a deduction or credit for premiums either under federal or state law. The definition of "long term care insurance contract" is taken from the federal definition under Section 7702(B) (b) of the Internal Revenue Code.

The deduction is effective for tax years beginning January 1, 2008.

FISCAL IMPLICATIONS

TRD:

The estimate shown above assumes an average annual premium of $3,000 for long-term care insurance. Approximately 444,000 returns filed by residents of New Mexico have a taxable income greater than $3,000 and therefore could potentially benefit from the deduction. Approximately 1.5% of the general population buys long- term care insurance premiums and this percentage is applied to the taxpayers who have a taxable income above $3,000. Hence, about 6,600 residents would take the deduction, at a total cost of $19.9 million. At an average income tax rate of 4%, the revenue loss would be $798 thousand for 2006.

Medical costs are increasing at an estimated rate of 8% per year. It is assumed that long-term insurance premiums will increase at the same rate. Tax year 2008 liability changes were assumed to affect only FY2009 revenues. Tax year 2009 and subsequent year changes in liabilities were assumed to be evenly split across the two fiscal years included in the calendar year.

SIGNIFICANT ISSUES

According to ALT, long-term care insurance policies are intended to defray the future cost of nursing home care, assisted living, home health care or other long-term care services. These policies have generally not been widely purchased, especially by seniors who tend to view the cost of the policy as too high. If purchased and utilized, these policies may prevent some people from spending down their resources paying for nursing home care, and thus becoming eligible for Medicaid.

HPC:

This bill will create an incentive for individuals to purchase qualified LTC insurance contracts and to reduce the financial burden of both the individual and the State of New Mexico by not being insured. Making this purchase transfers the LTC risk from the individual and the state, if Medicaid, to an insurance carrier for financing of the care.

Currently there are ten states that provide income tax credits on LTC insurance contracts in varying percentages, from ten percent to twenty five percent, and varying dollars limits. These states include: Colorado, Louisiana, Maine, Michigan, Minnesota, Montana, New York, North Dakota, Oregon, and Virginia. Some nineteen states provide income tax deductions, while others do not offer any income tax credits nor income tax deductions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB114 creates a credit phased-in by age for the purchase of long term care policies.

NF/mt