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

SPONSOR Snyder **ORIGINAL DATE** 1/23/08
LAST UPDATED 1/31/08 **HB**

SHORT TITLE Long Term Care Insurance Premium Tax Credit **SB** 114

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(12,080.0)	(8,242.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

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

SUMMARY

Synopsis of Bill

Senate Bill 114 creates a personal income tax credit that increases with age to offset the cost of premiums for qualified long term care insurance. If the taxpayer claimed or deducted premiums on federal tax forms or under other state tax programs, the credit is not allowed.

Phase in of credit

Age	% Credit
45-49	25.0%
50-54	37.5%
55-59	50.0%
60-64	62.5%
65+	75.0%

The credit can be claimed in tax years 2008 forward and there is no sunset or repeal date.

FISCAL IMPLICATIONS

TRD has not updated its analysis and the fiscal impact shown here could change, possibly significantly. This analysis was taken from a similar bill (SB726) in the 2007 session.

TRD:

Aggregate data on long-term care premiums is not readily available to allow a precise estimate of the proposed measure's impacts. However, assuming annual long-term care insurance premiums average $3,000, the proposed measure would create credits raging from $750 to $2,250 per return, averaging approximately $1,500. About 37% of the population in New Mexico, 727,000, consists of people who are 45 years of age or older.

About 20% of New Mexico's personal income tax returns report tax obligations in excess of $1,500 and thus possess sufficient tax liability to claim this credit. The fraction of returns that would claim the proposed credit is uncertain. However, approximately 1.5% of the nation's population purchases long-term care insurance. Assuming the proposed measure resulted in credits clamed by 3 percent of the 175,000 returns that could benefit from it (i.e. 5,250 returns) and that they claim an average of $1,500 in credit, suggests an annual total of approximately $7.9 million in credits. This is the basis for the $8 million estimate for tax year 2008. For future rates the inflation rates was applied to this estimate.

SIGNIFICANT ISSUES

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.

An income tax credit could have the effect of encouraging the purchase of long-term care insurance by more people, especially younger people for whom the premium is more affordable. Education and outreach about the availability and benefit of long-term care insurance should accompany other measures, such as this tax credit, to effectively promote their purchase.

HPC:

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. New Mexico residents are eligible for an income tax deduction equal to a part or the sum of premiums paid.

TRD:

Justification for the proposed measure is probably that by purchasing long-term care insurance, taxpayers prevent imposing financial burdens on family members and other taxpayers. It should be noted, however, that industry representatives say that the typical purchasers of this insurance are mid-to-high income clients. About half of the individuals who purchase this insurance have incomes of $75,000 and above. Hence the proposal would tend to benefit mid-to-high income taxpayers.

TECHNICAL ISSUES

The language does not specify that the taxpayer needs to be a New Mexico resident.

NF/bb