LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6751 **DATE PREPARED:** Dec 17, 1999
BILL NUMBER: SB 223 **BILL AMENDED:**

SUBJECT: Deduction for long term home care.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that an individual is entitled to an Adjusted Gross Income Tax deduction of $2,750 for certain elderly family members who are chronically ill and who reside in the individual's home for more than one-half of the taxable year. The bill provides that the deduction is adjusted each year based on changes in the Consumer Price Index.

Effective Date: January 1, 2000 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will have administrative expenses associated with updating tax forms, instructions, and computer programs which will be absorbed in its current budget.

Explanation of State Revenues: *This new Individual Income Tax deduction could potentially reduce revenue collections by $1 M in FY 2001 and $3 M upon full implementation.*

This bill provides an adjusted gross income tax deduction for taxpayers who provide care for certain qualified individuals who are chronically ill and at least 65 years of age. Qualified individuals include a parent, stepparent, spouse or ancestor of the taxpayer. A chronically ill individual is defined as an individual who has been certified by a licensed health care practitioner as meeting one of the following conditions: 1) being unable to perform (without substantial assistance from another individual) at least two activities of daily living for 90 days or more; 2) having a level of disability as determined by federal Health and Human Services' regulation and similar to the those described under 1); or 3) requiring substantial supervision to protect the individual from threats of health and safety due to severe cognitive impairment. The deduction is equal to $2,750 multiplied by the number of qualified individuals who reside in the taxpayers home for more than half of the taxable year. The deduction is to be annually adjusted by the Consumer Price Index (CPI).

The bill also restricts the use of this income tax deduction if an individual is entitled to claim an exemption or deduction from gross income under the Internal Revenue Code (IRC). The 1999 Taxpayer Refund and Relief Act which was vetoed in September 1999, proposed a dependency deduction for caretakers of elderly family members. Currently no IRC deduction exists which would restrict the application of this new deduction.

Based on a study conducted by the Center for Urban Policy and the Environment in July 1998, it is estimated that 28% of the elderly in Indiana may have two or more conditions that could meet the chronically ill requirements. Of these individuals, the survey projected that 24% were provided care by someone within the elder's household. Using Census information, it is estimated that the potential elderly population of chronically ill individuals who are being provided care by a relative in their home is 36,400. It is unknown how many of these individuals would have the necessary certification by a licensed health care practitioner.

This new income tax deduction could reduce Individual Income Tax revenue by approximately $1 M in the first year of implementation. A $2,750 income tax deduction would reduce a taxpayer's tax liability by $93.50. Upon full implementation this deduction could potentially reduce revenue collections by $3 M annually. The revenue loss will depend on the tax liability of the taxpayer who is providing the care for the chronically ill member of their family. The deduction is effective for tax years beginning January 1, 2000, and will first affect revenue collections in FY 2001. As more individuals become aware of this deduction and obtain the necessary certification, the revenue loss from this deduction could increase. The deduction will also be adjusted annually by CPI. However if a comparable exemption is provided under the IRC, the revenue loss would be reduced. Individual Income Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local option income tax revenue will be affected by any reduction in an individual's adjusted gross income. Any impact is expected to be minimal.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Statistical Abstract of the United State: 1998; U.S. Census Bureau; "Projecting the Need for Community-Based, Long-Term Care and Other Supportive Services in Indiana," by Karen S. Harlow, Eleanor D. Kinney, & Michael Przybylski, Center for Urban Policy and the Environment, School of Public and Environmental Affairs, IUPUI, July 1998.