

**INDIVIDUAL INCOME TAX
Tax Credit for Long Term
Care Insurance Premiums**

March 12, 2001

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 89 (Larson)/H.F. 92 (Daggett) **As Amended, Senate Sales and Income Tax Div.**
(2/13/01)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
			(000's)	
General Fund	(\$4,000)	(\$4,400)	(\$4,800)	(\$5,300)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: A nonrefundable income tax credit for premiums paid and not deducted federally for qualifying long term care insurance policies became effective beginning with tax year 1999. The credit is equal to the lesser of \$100 or 25% of the amount paid per beneficiary, with a maximum credit of \$200 annually on a joint return, \$100 for other filers.

Proposed Law: As amended, this bill would increase the maximum credit to \$250 per individual and \$500 per joint return with two policyholders.

REVENUE ANALYSIS DETAIL

- There were 16,765 returns claiming this credit in tax year 1999 for an average credit amount of \$132.
- Estimated growth of ten percent annually will bring that total to 20,200 for tax year 2001.
- An additional 8,000 returns, or about 10,000 policies, will be eligible beginning in tax year 2001 due to the enrollment by State of Minnesota and University employees and their families.
- It is assumed the average policy premium for 85% (24,000) of policies will be \$800, worth an average credit of \$200. This is \$100 per policy more than the current maximum, or an additional \$132 per return for a total cost of \$3.2 million over current law.
- For about 15% of policies (4,200) an average is estimated at \$1,400, generally increasing with age of policy holders. This average would yield credit amounts of \$350, or \$250 per policy above current law. Of this, \$150 could be used under the proposal, or \$198 per return for a total of \$0.8 million for this group.
- A growth of ten percent annually is assumed.

Number of Taxpayers Affected: about 28,000 returns in 2001.

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ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note

Source: Minnesota Department of Revenue

Tax Research Division

<http://www.taxes.state.mn.us/polic.html#analyses>

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