

INDIVIDUAL INCOME TAX
Subtraction for Medical Expenditures

March 14, 2001

Department of Revenue
Analysis of S.F. 348 (Samuelson)/H.F. 676 (Wenzel)

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

	<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	(\$182, 300)	(\$196,900)	(\$212,600)	(\$229,600)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: Minnesota currently allows a subtraction for self-employed health insurance not deducted on the federal return.

Proposed Law: The proposal would extend the subtraction to apply to all medical expenses not deducted federally. The subtraction would include expenses that are eligible under federal law for the itemized deduction but not deducted in determining federal taxable income or used for the long-term care insurance credit.

REVENUE ANALYSIS DETAIL

- Data on Minnesota health care spending estimates for 1998 were obtained from the Minnesota Department of Health.
- The estimated \$16.4 billion in health care spending for 1998 was grown 10% annually to an estimated \$21.8 billion for 2001.
- Of this, 19%, or \$4.1 billion, was by individuals for out of pocket expenses.
- Another 36%, or \$7.8 billion, was for private health insurance.
- Based on the calculations in the 2000 Tax Expenditure Budget, approximately \$7.6 billion is already excluded from income as an employer-provided benefit and another \$151 million is deducted under the self-employed health insurance subtraction (both federal and Minnesota portions) in 2001.
- Based on the 1999 income tax sample, \$682 million of the total medical expenses are already taken as itemized deductions on individuals' federal returns; this would grow to \$825 million for 2001.
- The remaining amount of \$3.3 billion is reduced by 15% to account for taxpayers who have little or no tax liability.
- An average marginal rate of 6.5% was applied to the base of \$2.8 billion which results in a revenue loss of \$182.3 million in tax year 2001.
- The total was estimated to grow by 8% annually.

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NUMBER OF TAXPAYERS AFFECTED: Cannot be determined from the data sources used in the analysis. It is possible that nearly all taxpayers would have some amount of out-of-pocket expenses to deduct.

ADMINISTRATIVE/OPERATIONAL IMPACT

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, there will be significant additional costs associated with such a subtraction that is expected to be used by hundreds of thousands of taxpayers.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>