INDIVIDUAL INCOME TAX
Subtraction for Long Term
Care Insurance Premiums

April 3, 2001

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

Department of Revenue
Analysis of S.F. 1110 (Langseth)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
	(000's)			
General Fund	($1,300)	($1,400)	($1,600)	($1,700)

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: This bill would allow a subtraction for the full amount of premiums paid by the taxpayer for the taxpayer or spouse that are not deducted federally. The credit cannot be claimed for the same premiums used for the subtraction. As understood, because the credit is 25% of premiums, the subtraction would be equal to the eligible premiums less the amount of the credit multiplied by four.

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. After using $400 for the maximum credit, $400 would remain for the subtraction.
- For about 15% of policies (4,200), an average is estimated at $1,400, generally increasing with the age of policyholders. After using $400 for the maximum credit, $1000 would remain for the subtraction.
- Total premiums available for the subtraction are estimated to be $18.2 million after multiplying by 1.32 to account for returns which have two policyholders.
- A marginal rate of 7 percent is used.
- A growth of ten percent annually is assumed.

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

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 some additional costs associated with such a subtraction that is expected to be used by at least 30,000 taxpayers.

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

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