

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Long Term Care Insurance Credit

February 3, 2004

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

Department of Revenue

Analysis of S.F. 15 (LeClair) H.F. 1968 (Kohls)      **Updated Analysis**

	<b>Revenue Gain or (Loss)</b>			
	<b><u>F.Y. 2004</u></b>	<b><u>F.Y. 2005</u></b>	<b><u>F.Y. 2006</u></b>	<b><u>F.Y. 2007</u></b>
	(000's)			
General Fund	\$0	(\$11,000)	(\$11,500)	(\$12,100)

Assumed effective beginning with tax year 2004.

### 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 increase the maximum credit to \$500 per individual and \$1,000 per joint return with two policyholders.

### REVENUE ANALYSIS DETAIL

- For tax year 2002, 43,129 returns claimed a total of \$5.8 million in long-term care insurance credit, for an average credit of \$135.
- Estimated growth of 5% annually would bring that number to 47,550 for tax year 2004.
- It is assumed the average policy premium for 75% of policies (35,662 returns) will be \$800, worth an average credit of \$200. This is \$100 per policy more than the current maximum, or an additional \$135 average per return for a total cost of \$4.8 million over current law.
- For about 25% of policies (11,887 returns) an average premium is estimated at \$1,500, generally increasing with age of policyholders. This average would yield credit amounts of \$375, or \$275 per policy above current maximum for an average additional \$371 per return and a total of \$4.4 million.
- It is assumed that the large increase in the maximum will bring about a one time additional 20% growth in policyholders, resulting in an additional increase of 9,057 returns in tax year 2004.
- Annual growth of 5% assumed for subsequent years.

**Number of Taxpayers Affected:** about 57,000 returns in 2004.

Source: Minnesota Department of Revenue  
Tax Research Division

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