

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Long Term Care Insurance Credit

April 14, 2003

Department of Revenue
Analysis of S.F. 662 (Murphy)/ H.F. 720 (Dempsey)

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

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>FY2007</u>
		(000's)		
General Fund	(\$6,900)	(\$7,500)	(\$8,100)	(\$8,700)

Effective beginning with tax year 2003.

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 \$250 per individual and \$500 per joint return with two policyholders.

REVENUE ANALYSIS DETAIL

- There were 39,170 returns claiming this credit in tax year 2001 for an average credit amount of \$133.
- Estimated growth of ten percent annually will bring that total to 47,400 for tax year 2003.
- It is assumed the average policy premium for 80% (37,920) of policies will be \$800, worth an average credit of \$200. This is \$100 per policy more than the current maximum, or an additional \$133 per return for a total cost of \$5.0 million over current law.
- For about 20% of policies (9,480) an average is estimated at \$1,400, generally increasing with age of policyholders. 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 \$1.9 million for this group.
- Growth of eight percent annually is assumed.

Number of Taxpayers Affected: about 47,000 returns in 2003.

Source: Minnesota Department of Revenue
Tax Research Division

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