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INCOME TAX: MEDICAL EXPENSES

House Bill 5134 (Substitute H-1)
First Analysis (6-30-98)

Sponsor: Rep. Barbara Dobb
Committee: Tax Policy

THE APPARENT PROBLEM:

The Internal Revenue Code allows a deduction for out-of-pocket medical care expenses that exceed 7.5 percent of adjusted gross income. The figure that is used from the federal form when beginning calculations of state income tax liability does not include that deduction. Legislation has been introduced that would allow taxpayers to claim the same deduction in calculating their state income taxes on the grounds that this would put those who cannot afford health insurance on a more equal footing with those who do not have such out-of-pocket payments because they are covered by health insurance.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to provide a deduction from adjusted gross income for the amount paid by a taxpayer for medical care expenses for which a deduction under Section 213 of the Internal Revenue Code may be claimed. (The federal act permits the deduction of medical expenses in excess of 7.5 percent of adjusted gross income.)

MCL 206.30

FISCAL IMPLICATIONS:

The House Fiscal Agency has estimated that the bill would reduce revenue by about $6 million annually. (Fiscal Note dated 5-29-98)

ARGUMENTS:

For:

The bill would provide much needed tax relief for taxpayers with high medical expenses not covered by health insurance (either because the taxpayer has no insurance or the care being paid for is not covered or not fully covered). The bill mirrors federal legislation, and benefits a particularly vulnerable segment of the population. It is only fair and just to allow people who have extraordinarily high medical bills that they must pay out of pocket to deduct some portion of those bills from the income on which they are taxed. Acknowledging high medical bills in the income tax statute is another way to take into account a taxpayer's ability to pay.

Against:

It is not a good idea to create additional itemized deductions on the state income tax form. The addition of one deduction will lead to well-meaning proposals to add others, complicating the state tax. A simple tax with a low flat rate is preferable.

POSITIONS:

The Department of Treasury is opposed to the bill. (6-24-98)

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.