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## INCOME TAX DEDUCTION: LONG-TERM CARE INSURANCE

### House Bill 5467 (Substitute H-2) First Analysis (7-1-98)

**Sponsor: Rep. Judith Scranton**  
**Committee: Tax Policy**

#### ***THE APPARENT PROBLEM:***

One way to make long-term care insurance more affordable, and eventually reduce the need for the state to pay for such care out of tax revenues, would be to offer an income tax deduction for the premiums individuals pay for long-term care insurance. Legislation to accomplish this has been introduced.

#### ***THE CONTENT OF THE BILL:***

The bill would amend the Income Tax Act to allow taxpayers to deduct from adjusted gross income premiums paid in the tax year to obtain long-term health care benefits. The deduction would apply beginning with the 1998 tax year, and would apply to the extent the premiums had not been deducted in determining adjusted gross income. The term "long-term health care benefits" would refer to coverage under a long-term health care expense-incurred policy or certificate issued by an insurance company under the Insurance Code.

MCL 206.30

#### ***FISCAL IMPLICATIONS:***

The House Fiscal Agency reports that the bill would reduce income tax revenues by about \$7 million to \$10 million on a full-year basis. (Fiscal Note dated 6-24-98)

#### ***ARGUMENTS:***

##### ***For:***

By granting a tax deduction for premiums paid for long-term care insurance, the bill will reward and encourage its purchase. The increased use of long-term care insurance, in turn, will reduce state Medicaid costs for such care. The use of long-term care insurance is a responsible way to help prevent a family from rapidly going through its assets in order to pay for care.

##### ***Response:***

It ought to be noted that by deducting the cost of long-term care premiums from taxable income, the bill will essentially reduce the cost of premiums by slightly over four percent (since the state tax rate is 4.4 percent). While this will be of benefit to people already able to purchase insurance, it is questionable whether it is sufficient to make long-term care insurance affordable for people who cannot now afford it.

##### ***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. (6-30-98)

Analyst: C. Couch

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■ 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.

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