

## INCOME TAX EXEMPTION: CARING FOR A PARENT OR GRANDPARENT

**House Bill 4512 (Substitute H-3)**  
**First Analysis (11-12-03)**

**Sponsor: Rep. Rick Shaffer**  
**Committee: Tax Policy**

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

In a June 2002 reported entitled Long Term Care Innovations: Challenges and Solutions, the Michigan Long Term Care Work Group (under the aegis of the Department of Community Health) stated:

“Significant increases in life expectancy, a growing elderly population, and advances in medical technology are setting the state for long term care (LTC) challenges in the 21<sup>st</sup> century for Michigan and the rest of the nation. It is imperative that Michigan plan for the future of long term care in order to meet the needs of future generations who will depend upon public resources for some or all of their care.”

The report continues, “[w]ithout changes, Medicaid will be unable to support future long-term care needs without severely limiting the state’s ability to fund other necessary programs. Medicaid is now [in 2000] 20 percent of Michigan’s total budget. Without action now, the future costs of Medicaid will grow rapidly, primarily because it is the only source of public funding for long-term care for low-income individuals and families.”

Recognizing the apparent need to reduce (or at least reign in) long term care Medicaid expenditures, the House passed a bill earlier this session that would amend the Income Tax Act to provide taxpayers with a deduction against their taxable income for the premiums paid during the tax year to obtain long-term care benefits. The apparent intent is to provide an incentive to taxpayers to purchase long term care insurance, thereby reducing the state’s future Medicaid expenditures on long-term care. Along similar lines, legislation has been introduced that would provide taxpayers caring for a parent or grandparent with an additional state income tax exemption if such care prevents the institutionalization of the person for whom care is being provided.

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

The bill would amend the Income Tax Act to allow a taxpayer to claim an additional exemption of \$1,500, if the taxpayer provides primary care for an eligible parent or grandparent, and if such care prevents the institutionalization (e.g. nursing home care or assisted living services) of that parent or grandparent. (The exemption would reduce taxable income on which the income tax is based.)

To claim the exemption, the taxpayer would have to attach an affidavit to his or her tax return that states the certain identifying information for the eligible parent or grandparent, that person’s relationship to the taxpayer, the specific types of primary care provided, and an estimation of costs of the care. Only one exemption per eligible parent or grandparent could be claimed. [For instance, if two siblings jointly provide care to an eligible parent, only one of them would be able to receive the exemption.]

An “eligible parent or grandparent” would be defined to mean a taxpayer’s parent or grandparent who lives in his or her own home, is a senior citizen (at least 65 years of age), and is eligible for nursing home care paid for by Medicaid.

The provision of “primary care” would be defined to mean activities of daily living (ADL’s) provided on a daily basis by the taxpayer or his or her dependent child to the eligible parent or grandparent. Such ADL’s would include assistance in personal care (such as bathing and dressing), meal planning and preparation, grocery shopping and other errands, trips to the doctor (and other medical personnel), housework, administration of medication, companionship, yard work, pet care, and help with financial matters.

MCL 206.30

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## ***FISCAL IMPLICATIONS:***

The House Fiscal Agency estimated that the introduced version of the bill would reduce income tax revenue by \$1 million to \$1.5 million per year. (HFA analysis dated 5-8-03) The bill as introduced applied to care provided parents; the substitute also applies to care provided grandparents.

## ***ARGUMENTS:***

### ***For:***

Family caregivers today provide ailing family members with a wide array of assistance from housekeeping and transportation to assistance in meal preparation and personal hygiene. The 2003 annual report of the State Advisory Council on Aging notes that nearly one quarter of U.S. households has been involved in providing care for a person aged 50 or over within the past 12 months. That translates into approximately 786,000 households in Michigan. Many have noted that family caregiving is the “backbone” of the long-term care system in the United States, with approximately 85 percent of all home care of older persons being provided by family members.

That being said, family caregivers of today face many demands, particularly in the midst of an economic downturn. In many instances, it is not uncommon to find households where both parents are working, supporting their children, and providing care to aging parents. Family caregivers face a myriad of emotional, physical, and financial stresses. They are burdened with high costs for medications, home health care, adult day care, medical equipment, and medical bills from care with specialists.

This bill, then, provides some relief to taxpayers who provide care for their parents or grandparents if such care prevents the institutionalization of that parent. This is particularly important, as preventing institutionalization allows the parent or grandparent to maintain their personal autonomy and dignity, receive care in the least restrictive environment, and (perhaps most importantly) allow families to remain intact.

It should be noted however, that in likelihood this care would not prevent the frail elderly (the stereotypical nursing home patient) from eventually entering a nursing home when the need arises. Rather, it appears the bill would likely prevent entry into a nursing home for many “temporary” residents of such facilities, such as people recuperating from a

stroke or heart attack or major surgery who, once recovered, can return to life as normal, if somewhat modified.

### ***Response:***

The bill leaves open a number of questions, not the least of which is the administration of the tax. It is not entirely clear how the Department of Treasury would be able to make a determination that the taxpayer is providing care to a parent or grandparent that prevents the institutionalization of that parent or grandparent. Also, the bill provides that only one exemption may be claimed for a parent or grandparent. So, if two siblings are providing care to their mother and both of them claim an exemption, how does the treasury department make a determination as to which sibling receives the exemption? While the taxpayer is required to submit an affidavit attesting to, among other things, the estimated cost of such care, it does not seem to provide the department with any guidelines. There may very well be instances where one sibling provides financial support and the other provides the actual care. Which one is more deserving of the exemption? Should the bill allow for multiple claims, but apportion the amount of the exemption accordingly? While this may serve to resolve problems when siblings claim an exemption for the same individual, it would further complicate the administration of the tax.

Also, the bill severely limits who may qualify for the additional exemption. The bill only applies to parents or grandparents and their caregiver children or grandchildren. This means that if a person provides care for a sibling or an aunt or uncle, he or she is not able to claim the additional exemption. Is this fair?

### ***For:***

By encouraging taxpayers to care for their ailing parents and grandparents, the bill serves to reduce the cost of Medicaid expenditures paid by the state for long term care. It is estimated that nursing home costs exceed \$40,000 per year for one person, which is more than \$100 per day. By contrast, the costs for receiving the same level of care in a private home through the Medicaid-funded MI Choice Waiver program is \$32 per day. Thus, encouraging family members to provide care, supplemented by health care professionals, to their relatives in their own home could substantially reduce the state’s long term care Medicaid expenditures.

***Response:***

In essence the bill reduces a taxpayer's taxable income by approximately \$60. Is it likely that this amount would have the desired affect of encouraging more individuals to provide care for ailing parents or grandparents (and thus reducing state Medicaid expenditures)?

***Against:***

Some critics of this kind of tax benefit say that the tax code should not be used to encourage and reward behavior in this way. They say that rather than proliferating exemptions and credits that complicate the state tax form and shift tax burdens, the legislature should work toward simplifying the tax and lowering the overall rate. Moreover, this bill is being proposed at a time when the state is facing a severe revenue shortfall.

***POSITIONS:***

The Department of Treasury opposes the bill. (11-6-03)

The Michigan Home Health Association supports the bill. (11-6-03)

AARP Michigan supports the bill. (11-10-03)

The Michigan County Medical Care Facilities supports the bill. (11-7-03)

Analyst: M. Wolf

■ 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.