Legislative Analysis

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LONG-TERM HEALTH CARE TAX INCENTIVES

House Bill 4790 (Substitute H-1)
House Bill 4791 (Substitute H-4)
Sponsor: Rep. Kevin Green
1st House Committee: Tax Policy
2nd House Committee: Insurance

Complete to 5-2-06

A SUMMARY OF HOUSE BILLS 4790 & 4791 AS REPORTED FROM COMMITTEE

House Bill 4791 would amend the Income Tax Act (MCL 206.30) to provide two new deductions from taxable income: (1) for the total of all contributions made to a long-term care health savings account for the purposes of paying long-term health care costs; and (2) for premiums paid to obtain long-term care benefits from coverage under a policy, certificate, or rider issued under the Insurance Code. Both deductions would be capped at $5,000 for a single return and $10,000 for a joint return per tax year. A taxpayer could take either deduction but not both. This would apply to tax years beginning after December 31, 2006.

Further, interest earned on a long-term care savings account and qualified withdrawals from an account would also not be included in taxable income. However, a withdrawal from an account that was not a qualified withdrawal would be added to taxable income.

House Bill 4790 would create a new act known as the Long-Term Health Care Savings Account Act to allow individuals to establish long-term health care savings accounts for the purposes of paying long-term health care costs, including insurance premiums. House Bill 4790 is tie-barred to House Bill 4791.

House Bill 4790

Under the bill, individual residents could establish a long-term health savings account with an "account administrator" to pay for long-term health care expenses for himself or herself, or a spouse, parent, or child for whom an exemption is claimed under the Income Tax Act. Individuals could also jointly establish an account with a spouse. The bill would allow contributions to the account to be made in cash or by check, money order, credit care, or other similar method, although contributions could not be made in the form of property.

The account administrator would have a fiduciary responsibility to the account beneficiary, and would utilize funds in the account solely for the purposes of paying long-term health care expenses. If the account holder withdraws funds from the account for a purpose other than paying long-term health care expenses, the administrator would withhold 10 percent of the amount withdrawn as a penalty payable to the Department of Treasury. However, the disbursement of any assets of an account pursuant to bankruptcy proceedings under Title 11 of the United States Code would not be considered a withdrawal. If an account holder were to die, the administrator would distribute the principal and accumulated interest of the account to the account holder's estate.

The bill defines "account administrator" to mean a state chartered bank, savings and loan association, credit union, or trust company authorized to act as fiduciary and under the supervision of the Office of Insurance and Financial Services; or a national banking association, federal savings and loan association, or credit union authorized to act as a fiduciary in the state.

Also, the bill defines "long-term health care costs" to mean expenses paid by the account holder or on the account holder's behalf for the use of skilled nursing care, home health care, personal care, or supportive services due to the loss of some capacity of self-care based on a chronic illness or another condition.

FISCAL IMPACT:

The fiscal impact of HB 4790 (H-1) and HB 4791 (H-4) depends on the premiums paid to obtain long-term care benefits, participation in the long-term health care savings accounts, as well as the level of contributions, qualified distributions, interest earned, and penalties imposed on the accounts. These bills would reduce income tax revenue by an estimated $12 million to $22 million annually. Approximately 77% of this reduction would affect the General Fund/General Purpose (GF/GP) and 23% would affect the School Aid Fund (SAF). However, to the degree tax benefits are taken through refunds, the GF/GP affect would be greater and the SAF would be less.

BACKGROUND INFORMATION:

Proponents of the bills maintain that the bills will provide an incentive for individuals to provide for their own long-term care expenses, thus reducing future demands on the Medicaid system. As the "baby boomers" age and as people live longer, this becomes ever more critical. Medicaid is an ever-increasing proportion of the state budget. Any short-term loss of revenue would thus be made up by eventual Medicaid savings. Opponents of the bills argue that while the bills will reward those currently buying long-term care insurance, the incentive is not sufficient to make those without such coverage decide to purchase it. A tax deduction only reduces the cost of coverage by just under four percent (since the state income tax rate is 3.9 percent). They ask: if the state is to "spend" this additional large amount annually (the cost of foregone income tax revenue) on long-term care, is this the most effective program?

POSITIONS:

Among those indicating support for the bill to the House Insurance Committee on 4-27-06 were: Elder Law of Michigan; the Life Insurance Association of Michigan; and the Michigan County Medical Care Facilities Council.

The Department of Treasury testified in opposition to the bill. (4-27-06)

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