L E G I S L A T I V E

TAXBILLSERVICE

LATE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for long-term care insurance premiums

BILL NUMBER: SB 1134; HB 993 (Identical)

INTRODUCED BY: SB by Tsutsui; HB by Keith-Agaran

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a tax credit for the amount paid for a long-term care insurance premium. The maximum amount of credit for an individual taxpayer or a husband and wife filing jointly shall be the lesser of: (1) $2,500, or (2) 50% of the cost of any long-term care insurance premium payments; provided that a husband and wife filing separately for which a joint return may be filed shall only be entitled to the amount of credit if they had filed jointly. Stipulates that the tax credit shall be available to taxpayers with adjusted gross income of: (1) $100,000 or less for a married couple filing jointly; or (2) $50,000 or less for individual taxpayers.

Delineates what premium payments shall be eligible for the credit and specifies persons, besides the taxpayer and immediate dependents, whose premiums may be eligible for the credit. Credits properly claimed and in excess of tax liability shall be refunded to the taxpayer.

If the taxpayer takes a deduction under IRC section 213 (with respect to medical, dental, etc., expenses) no tax credit may be claimed for that portion of the cost for which the deduction was taken. Claims for the credit must be filed within twelve months of the close of the taxable year or be waived if not filed on time.

EFFECTIVE DATE: July 1, 2009; applicable to tax years beginning after December 31, 2008

STAFF COMMENTS: This measure provides an incentive to taxpayers to purchase long-term care (LTC) insurance premiums by allowing taxpayers to claim a credit for amounts paid for such insurance. To the extent that this is an alternative to a state-run, long-term care insurance program, it is a proposal that deserves serious consideration. The question is whether or not individuals will plan ahead for their needs in time to make such insurance reasonable and affordable. Encouraging taxpayers to acquire LTC insurance now will insure that the state will not be burdened with supporting persons as the need arises.

The question now is whether or not the state can afford an incentive given all the other competing interests. It should be noted that, as drafted, it would appear that the credit limits are per return. Thus, the 50% or $2,500, whichever is less, applies to all insurance paid by the taxpayer filing that return. Thus, if a couple bought policies for themselves and one of the spouse's parents, the maximum amount that could be claimed would be $2,500 even though the premiums for all three policies total more than $5,000. On the other end, with an unknown impact, the legislature may want to take it slow and phase-in the credit to assess the impact that this credit will have on the state treasury.

It should be noted that the proposed measure limits the availability of the credit for those joint filers with $100,000 or less and single filers with $50,000 or less of adjusted gross income. If the intent is to get as many people to take out private, long-term care policies, then the credit should not be limited to only those with a certain amount of income. A couple at the high end of the income scale may have the resources to take out policies for themselves as well as for an aging parent. They should be provided the same incentive to do so as it will save the state in the long run from having to provide long-term care for any one of them. Consideration might be given to an inversely graduated amount of credit such that the amount of the credit gets smaller as income grows larger.

Given that many advocates of a previously proposed state-run, long-term care insurance system noted that to do nothing about providing for such coverage will, in the end, cost the state more to provide that care, the credits proposed in this bill can be viewed as a long-term investment on the part of taxpayers that will insure that future taxpayers will not be asked to pick up the tab for long-term care for a growing segment of the population.

That said, lawmakers should not overlook the fact that unless the necessary services and facilities are available and in ample supply, no amount of insurance or money will be able to access the needed care. Like early childhood care and education the same trilemma of affordability, accessibility and quality apply to long-term care as well.

Digested 2/17/09