GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Linda W. Cropp**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: **February 6, 2002**

SUBJECT: **Fiscal Impact Statement: "Long Term Care Tax Credit Act of 2002"**

REFERENCE: **Bill Number 14-432 as Introduced**

Conclusion

Funds are not sufficient in the FY 2002 through FY 2005 budget and financial plan to implement the proposed legislation. **The provisions of the proposed legislation will result in an unbudgeted decrease of local General Fund revenue of approximately $3.52 million in FY 2002 through FY 2005.** There is no revenue impact in FY 2002 as the credits applied to Tax Year 2002 income tax returns will be reflected in revenue collected in FY 2003.

Background

The proposed legislation will allow a tax credit for District residents who purchase a long-term care insurance policy. The credit will be an amount equal to 15 percent of the premium payments made within the tax year. The total credit claimed may not exceed $300 in any tax year.

The proposed legislation stipulates that any premium payments that are excluded from a person's net taxable income may not be applied to the proposed tax credit.

Since 1996, 22 states have implemented tax incentives for long-term care insurance premiums including the State of Maryland, the Commonwealth of Virginia, and the State of West Virginia in the immediate region. Along with the District of Columbia, other states are considering similar measures including the states of Michigan, Illinois and Pennsylvania. The types of tax incentives used are either tax credits or tax deductions.

An exception is the State of Maine which allows both a deduction for the individual and a credit for the employer.

Financial Plan Impact

According to the Department of Insurance and Securities Regulation the aggregate of existing annual premium payments for long-term care insurance coverage is approximately $3.3 million for the District of Columbia. It is estimated that the total credits applied against District income tax would not exceed $495,000 in the first filing year. The table below presents the projected reduction in local General Fund revenue through the implementation of the proposed legislation. This table also assumes that the increase in marketability of long-term care insurance products will cause an increase in paid premiums by approximately 14 percent beginning in FY 2003.

Beginning in March of 2002 the U.S. Office of Personnel Management (OPM) will offer Federal employees an early enrollment opportunity for long-term care insurance. OPM currently has no projections on how many Federal employees may enroll; however, private sector experience in long-term care enrollment indicates between 3 and 5 percent of those who are eligible to participate. Of the estimated population of Federal employees who are District residents, approximately 3,600 people would be expected to enroll and qualify for tax credits totaling $540,000 in the first filing year. The result of the impacts of this new population are included in the table below.

Estimated Reduction in Local General Fund Revenue ($ in millions)				
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**4-Year Total**
$0.00	**$1.04**	**$1.18**	**$1.30**	**$3.52**

Industry research assumes that tax incentives through credits or deductions would increase long-term care coverage and bring about Medicaid savings. Although the proposed legislation may result in a decrease in certain Medicaid claims for individuals in the District over time thus implying savings to required local matching funds, the proposed legislation would not necessarily result in reductions in District Medicaid expenditures. The proposed legislation may result instead in the reallocation of budgeted Medicaid expenditures to Medicaid reimbursable programs for which the District has required participatory obligations.

A tax reduction on a District of Columbia tax return will decrease a household's District tax liability. At the same time, any household receiving the advantage of such a decrease and itemizing deductions for federal tax purposes will incur an additional federal tax liability in the following tax year. This result is because District tax liabilities are federal tax deductions for households that itemize.