

**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 [signature]  
Chief Financial Officer

**DATE:** July 19, 2004

**SUBJECT:** Fiscal Impact Statement: "Long Term Care Insurance Tax Deduction Act of 2004"

**REFERENCE:** Bill Number 15-136 as Amended

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**Conclusion**

Funds are not sufficient in the FY 2005 through FY 2008 budget and financial plan as agreed to by the Mayor and the Council of the District of Columbia. Additional resources will be needed to implement the proposed legislation. The provisions of the proposed legislation will result in an unbudgeted decrease of local General Fund revenue of approximately \$146,000 in FY 2005 and \$631,000 in FY 2005 through FY 2008.

**Background**

The proposed legislation will allow a tax deduction for District residents who purchase a long term care insurance policy. The total deduction claimed may not exceed \$500 in any tax year.

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, Securities and Banking, the total number of policy holders who are residents of the District of Columbia is 3,100. It is estimated that the total deductions applied against District income tax would not exceed \$1.55 million in the first filing year. At a marginal rate of individual income taxation of approximately 9.0 percent, the loss to local General Fund revenue would be approximately \$146,475. 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 2006.

Revenue Impact on the Financial Plan				
FY 2005	FY 2006	FY 2007	FY 2008	4 -Year Total
\$146,475	\$153,799	\$161,489	\$169,563	\$631,326

Beginning in March of 2002, the U.S. Office of Personnel Management (OPM) offered Federal employees an early enrollment opportunity for long term care insurance. OPM currently has no reports on how many Federal employees have enrolled; however, private sector experience in long term care enrollment indicates between three and five percent of those who are eligible usually participate. The District has no projections on how many new enrollees would be realized if this incentive was made law. This analysis assumes a five percent rate of growth for the near future.

The District's insurance premium tax as collected by the District on the 3,100 long term care policies cannot be applied to offset the revenue reductions of the proposed legislation because these funds have already been appropriated by the Mayor and the Council to fund existing government operations.