Senate

General Assembly

File No. 166

February Session, 2008

Substitute Senate Bill No. 312

Senate, March 26, 2008

The Committee on Insurance and Real Estate reported through SEN. CRISCO of the 17th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING A DEDUCTION FROM THE PERSONAL INCOME TAX FOR MEDICAL EXPENSES AND HEALTH INSURANCE.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of section 12-701 of the 2008 supplement to the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2008, and applicable to taxable years commencing on or after January 1, 2008*):

(B) There shall be subtracted therefrom (i) to the extent properly includable in gross income for federal income tax purposes, any income with respect to which taxation by any state is prohibited by federal law, (ii) to the extent allowable under section 12-718, exempt dividends paid by a regulated investment company, (iii) the amount of any refund or credit for overpayment of income taxes imposed by this state, or any other state of the United States or a political subdivision thereof, or the District of Columbia, to the extent properly includable in gross income for federal income tax purposes, (iv) to the extent properly includable in gross income for federal income tax purposes and not otherwise subtracted from federal adjusted gross income pursuant to clause (x) of this subparagraph in computing Connecticut adjusted gross income, any tier 1 railroad retirement benefits, (v) to the extent any additional allowance for depreciation under Section 168(k) of the Internal Revenue Code, as provided by Section 101 of the Job Creation and Worker Assistance Act of 2002, for property placed in service after December 31, 2001, but prior to September 10, 2004, was added to federal adjusted gross income pursuant to subparagraph (A)(ix) of this subdivision in computing Connecticut adjusted gross income for a taxable year ending after December 31, 2001, twenty-five per cent of such additional allowance for depreciation in each of the four succeeding taxable years, (vi) to the extent properly includable in gross income for federal income tax purposes, any interest income from obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, (vii) to the extent properly includable in determining the net gain or loss from the sale or other disposition of capital assets for federal income tax purposes, any gain from the sale or exchange of obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, in the income year such gain was recognized, (viii) any interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income and is attributable to a trade or business carried on by such individual, (ix) ordinary and necessary expenses paid or incurred during the taxable year for the production or collection of income which is subject to taxation under this chapter but exempt from federal income tax, or the management, conservation or maintenance of property held for the production of such income, and the amortizable bond premium for the taxable year on any bond the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such expenses and premiums are not deductible in determining federal adjusted gross income and are attributable to a trade or business carried on by such individual, (x) (I) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or as a married individual filing separately whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income for such taxable year is less than sixty thousand dollars or a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is less than sixty thousand dollars, an amount equal to the Social Security benefits includable for federal income tax purposes; and (II) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or as a married individual filing separately whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income from such taxable year is sixty thousand dollars or more or for a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is sixty thousand dollars or more, an amount equal to the difference between the amount of Social Security benefits includable for federal income tax purposes and the lesser of twenty-five per cent of the Social Security benefits received during the taxable year, or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code, (xi) to the extent properly includable in gross income for federal income tax purposes, any amount rebated to a taxpayer pursuant to section 12-746, (xii) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, any distribution to such beneficiary from any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiii) to the extent allowable under section 12-701a, contributions to accounts established pursuant to any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiv) to the extent properly includable in gross income for federal income tax purposes, the amount of any Holocaust victims' settlement payment received in the taxable year by a Holocaust victim, (xv) to the extent properly includable in gross income for federal income tax purposes of an account holder, as defined in section 31-51ww, interest earned on funds deposited in the individual development account, as defined in section 31-51ww, of such account holder, (xvi) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, as defined in section 3-123aa of the 2008 supplement to the general statutes, interest earned on contributions to accounts established for the designated beneficiary pursuant to the Connecticut Homecare Option Program for the Elderly established by sections 3-123aa to 3-123ff, inclusive, [and] (xvii) to the extent properly included in gross income for federal income tax purposes, fifty per cent of the income received from the United States government as retirement pay for a retired member of (I) the Armed Forces of the United States, as defined in Section 101 of Title 10 of the United States Code, or (II) the National Guard, as defined in Section 101 of Title 10 of the United States Code, and (xviii) to the extent properly included in gross income for federal income tax purposes, the amount paid by a taxpayer during the taxable year, up to a maximum of five hundred dollars per family member, for (I) premiums on an individual or group health insurance policy that provides coverage of the type specified in section 38a-469, (II) premiums on a long-term care policy, as defined in section 38a-501 of the 2008 supplement to the general statutes, 38a-528 or issued under section 38a-475, or (III) medical expenses, as defined in Section 213 of Title 26 of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as amended from time to time.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2008, and applicable to taxable years commencing on or after January 1, 2008*	12-701(a)(20)(B)

INS *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 09 $	FY 10 $
Department of Revenue Services	GF - Revenue Loss	17 to 45 million	17 to 45 million

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill will result in a General Fund revenue loss to the Personal Income Tax of between $17 million and $45 million per year beginning in FY 09. The estimate assumes that 30% to 80% of tax payers filing income tax returns will take deductions for medical related expenses.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis

sSB 312

AN ACT CONCERNING A DEDUCTION FROM THE PERSONAL INCOME TAX FOR MEDICAL EXPENSES AND HEALTH INSURANCE.

SUMMARY:

The bill allows a taxpayer to deduct from Connecticut adjusted gross income for state income tax purposes amounts paid for (1) premiums for certain group and individual health insurance and long-term care policies and (2) certain medical expenses. It limits a taxpayer's annual deduction for such premiums and medical expenses to $500 per family member.

EFFECTIVE DATE: July 1, 2008 and applicable to taxable years beginning on or after January 1, 2008.

ELIGIBLE DEDUCTIONS

Health Insurance Policies

With respect to health insurance policy premiums, the bill applies to premiums paid for a health insurance policy issued on an individual or group basis that provides the following type of coverage:

1. basic hospital expense,
2. basic medical-surgical expense,
3. hospital confinement indemnity,
4. major medical expense,
5. disability income protection,
6. accident only,

7. long-term care,
8. specified accident,
9. Medicare supplement,
10. limited benefit,
11. hospital or medical service plan,
12. hospital and medical coverage provided to subscribers of a health care center (i.e., HMO), or
13. specified disease.

Long-Term Care Policies

With respect to long-term care policy premiums, the bill applies to premiums paid for a long-term care policy that the Connecticut Insurance Department precertified to be available through the Connecticut Partnership for Long-Term Care (CGS § 38a-475).

It also applies to premiums paid for an individual or group long-term care policy designed to provide benefits on an expense-incurred, indemnity, or prepaid basis for necessary care or treatment of an injury, illness, or loss of functional capacity that a certified or licensed health care provider renders in a setting other than an acute care hospital for at least one year after an elimination period (a time period when benefits are not payable) as provided for in state law. A long-term care policy must provide benefits for confinement in a nursing home or confinement in the insured's own home or both. Any additional benefits provided must relate to long-term treatment of an injury, illness, or loss of functional capacity (CGS §§ 38a-501 and 38a-528).

A long-term care policy does not include a policy offered primarily to provide the following type of coverage:

1. basic Medicare supplement,

2. basic medical-surgical expense,
3. hospital confinement indemnity,
4. major medical expense,
5. disability income protection,
6. accident only,
7. specified accident , or
8. limited benefit.

Medical Expenses

With respect to medical expenses, the bill applies to such expenses as defined in the Internal Revenue Code. Based on IRS Publication 502 (2007), medical expenses are the costs (1) of diagnosis, cure, mitigation, treatment, or prevention of disease, and (2) for treatments affecting any part or function of the body. They include (1) the costs of equipment, supplies, and diagnostic devices needed for these purposes and (2) dental expenses.

Medical expenses include premiums paid for insurance that covers the medical care expenses as well as amounts paid for (1) transportation to receive medical care, (2) qualified long-term care services, and (3) any qualified long-term care insurance contract, within certain limits.

Medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness. They do not include (1) expenses that are merely beneficial to general health (e.g., vitamins or a vacation) or (2) any services or items for which an insurance company or other source paid.

BACKGROUND

Related Bills

The Insurance and Real Estate Committee reported out the following related bills:

1. sHB 5158, which expands the definition of health insurance policy to include a policy that provides TriCare supplement coverage (thus, premiums for TriCare supplement policies would be deductible under this bill) and

2. sSB 311, which establishes a tax credit for small employers that offer certain wellness programs to their employees.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute
Yea 18 Nay 0 (03/06/2008)