Senate

General Assembly **File No. 20**

January Session, 2013 Senate Bill No. 813

Senate, March 4, 2013

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 bill ought to pass.

AN ACT ESTABLISHING A TAX CREDIT FOR THE PURCHASE OF LONG-TERM CARE INSURANCE.

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

Section 1. (NEW) (*Effective July 1, 2013, and applicable to taxable years commencing on or after January 1, 2013*) (a) Any resident of this state, as defined in subsection (a) of section 12-701 of the general statutes, shall be allowed a credit for premiums on a long-term care policy, as defined in section 38a-501 or 38a-528 of the general statutes and including a long-term care policy issued pursuant to section 38a-475 of the general statutes, under which policy such resident is insured during the taxable year.

(b) The credit allowed pursuant to this section shall be five hundred dollars for the premiums paid by such resident on each such long-term policy as follows: (1) In the case of a resident who files under the federal income tax for such taxable year as an unmarried individual, a married individual filing separately or a head of household, one long-term care policy shall be eligible for a credit under the provisions of this section; and (2) in the case of residents who file under federal income tax for such taxable year as married individuals filing jointly, no more than two such policies shall be eligible for such credit.

(c) The credit may only be used to reduce such resident's tax liability for the year in which such credit is applicable but in no event shall such credit be used to reduce such tax liability to less than zero.

(d) The amount of tax due pursuant to sections 12-705 and 12-722 of the general statutes shall be calculated without regard to this credit.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2013, and applicable to taxable years commencing on or after January 1, 2013*	New section

INS *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 14 $	FY 15 $
Department of Revenue Services	GF - Revenue Loss	71.5 million	78.3 million
Department of Revenue Services	GF - Cost	90,593	60,593
State Comptroller - Fringe Benefits[1]	GF - Cost	20,929	20,929

Municipal Impact: None

Explanation

The bill establishes a $500 Personal Income Tax credit for Connecticut residents for long-term care insurance premiums paid. This results in a General Fund revenue loss of approximately $71.5 million in FY 14, $78.3 million in FY 15, and $84.6 million annually thereafter, as well as a cost of $111,522 in FY 14 and $81,522 in FY 15 to the Department of Revenue Services for printing, programming and compliance assurance.

The revenue loss estimate is based on information from the University of Connecticut Health Center indicating that approximately 103,000 Connecticut residents have purchased long-term care insurance policies, with an approximate additional 10,500 policies purchased annually,[2] and assumes taxpayers would receive a credit for each year in which an eligible premium is paid. Additionally, a credit

[1] The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 34.54% of payroll in FY 14 and FY 15.

[2] An annual attrition rate of approximately 700 policies is also assumed, based on mortality data from the Department of Public Health.

amount of $694 is used for calculation purposes to control for the variation in total credits available based on filing status.[3]

The cost to DRS includes a one-time cost of $30,000 in FY 14 associated with form alteration and tax schedule printing, and technical/programming changes to the online Taxpayer Service Center (TSC) and the Integrated Taxpayer Administration System (ITAS). It is also anticipated that a Revenue Examiner I position would be necessary to ensure compliance with the provision, at a cost of $81,522 in each of FY 14 and FY 15 (consisting of $60,593 for salary and $20,929 for fringe benefits).

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation. In addition, normal annual pension costs (currently estimated at 7.5% of payroll) attributable to the identified personnel changes will be recognized in the state's annual required pension contribution in future actuarial valuations.

Sources: *Department of Public Health Connecticut Resident Mortality Statistics*
University of Connecticut Health Center Connecticut Long-Term Care Needs Assessment March 2010

[3] The bill specifies that one credit of $500 is available to taxpayers filing as single, head of household, or married filing separately, and up to two credits of $500 are available to taxpayers filing jointly.

OLR Bill Analysis

SB 813

AN ACT ESTABLISHING A TAX CREDIT FOR THE PURCHASE OF LONG-TERM CARE INSURANCE.

SUMMARY:

This bill creates a $500 credit, apparently against the personal income tax, for premiums paid by a state resident for long-term care policies who is insured under these policies during the taxable year. The credit does not apply to a nonresident who is subject to the tax, which may raise constitutional issues (see BACKGROUND). The credit is the same, regardless of the amount of premiums paid.

The bill allows one long-term care policy to be eligible for the credit for residents who file as an unmarried individual, a married individual filing separately, or a head of household under the federal income tax. For residents who file as married individuals filing jointly, no more than two policies are eligible for the credit. The credit may only be used to reduce the resident's tax liability for the year in which the credit is applied and may not reduce the tax liability to less than zero.

The credit does not affect payroll tax withholding or estimated income tax payments.

EFFECTIVE DATE: July 1, 2013, and applicable to taxable years beginning on or after January 1, 2013.

BACKGROUND

Differential Treatment of Non-residents

In *Lunding v. New York Tax Appeals Tribunal*, 522 U.S. 287 (1998), the U.S. Supreme Court ruled that a New York tax law that effectively only allowed resident taxpayers an income tax deduction for alimony the taxpayer paid violated the Privileges and Immunities Clause of the U.S. Constitution. This clause (U.S. Const. Art. IV) provides that "the Citizens of each State shall be entitled to all Privileges and Immunities of citizens in the several States." The Court held that the clause bars discrimination against citizens of other states where there is no substantial reason for discrimination beyond the mere fact that they are citizens of other states. However, the clause does not preclude disparity of treatment in situations where there are valid independent reasons for it. The test of the constitutionality of a credit that only applies to in-state residents is whether the right to the credit is reasonably limited to residents and whether there was intentional discrimination against non-resident taxpayers.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable

Yea	19	Nay	0	(02/14/2013)