

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 144 (First Edition)

SHORT TITLE: An Act to Reenact the Long-Term Care Insurance Tax Credit

SPONSOR(S): Representatives Holliman and Tarleton

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
REVENUES (\$ million)	(\$10.0)	(\$10.2)	(\$10.4)	(\$10.6)	(\$10.8)
EXPENDITURES					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: January 1, 2007					

BILL SUMMARY: This bill reenacts GS 105-151.28 (individual income tax credit for a percentage of long-term care insurance premiums paid) for taxable years beginning on or after January 1, 2007. The bill increases the credit percentage from 15% to 20% and increases the maximum credit from \$350 to \$500 for each insurance contract for which a credit is claimed. The credit had expired for taxable years beginning on or after January 1, 2004.

ASSUMPTIONS AND METHODOLOGY: The bill reenacts the long-term care insurance tax credit, and allows taxpayers a credit equal to 20 percent of their paid premiums. This represents a 33 percent increase from when the tax credit was last in place. The bill also places a cap on the credit of \$500, which is \$150 higher than when the credit was last available to taxpayers, in 2003.

Using data provided by the Department of Revenue from the 1999 to 2003 tax years, it is estimated that the revenue loss in FY2007-08 will be \$10 million dollars. The estimate assumes that large abuse/error rates associated with the introduction of this tax credit, will be ameliorated. In 2003, the Department of Revenue reported error/abuse rates had fallen from above 80 percent to 15 percent. Because of the nature of this tax credit, the department believes the 15 percent abuse/error rate will persist.

Based on the tax years 1999 to 2003, the average, per return tax credit taken was never greater than \$230. Extending the cap to \$500 will help some taxpayers, but raising the cap, on average, should not have an impact on the estimated total tax credits taken in any tax year. The increased percent (20%) of allowable paid premiums to apply towards the credit will have an impact on total credits taken. Given this increase along with anticipated growth in the adult population, the credit is expected to increase from \$7.9 million in 2003, to \$10.0 million in FY2007-08. Subsequent fiscal years were grown at a rate equal to the anticipated growth in North Carolina's adult population as projected by the U.S. Census Bureau.

SOURCES OF DATA: Department of Revenue, U.S. Census Bureau

TECHNICAL CONSIDERATIONS: None

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