D.C. Tax Revision Commission Policy Options

Policy Option #20: Eliminate Deduction for Long-Term Care Insurance

MEMORANDUM

Proposal: Eliminate the $500 deduction for long-term care insurance
Tax Type: Income
Origin: Robert Buschman
Commission Goal: Simplicity

Current Law

An individual may deduct annual payments in premiums for long-term care insurance, up to a limit of $500, from her adjusted income.

Proposed Change

Eliminate the deduction for long-term care insurance.

Reason for Change

The deduction is little used (only 4,016 taxpayers claimed it in 2008) and of small value to individuals. For someone using the max deduction of $500, the individual savings ranged from $20 for those in the 4% marginal rate bracket to $44.75 for those in the top rate bracket. The deduction also raises vertical equity issues. A taxpayer with no tax liability cannot benefit from the deduction and more than half of the benefits are claimed by tax filers with income of $100,000 or more. Furthermore, there is no evidence that the program achieves its goal of incentivizing the purchase of long-term care.

Pros

- Would make the D.C. individual income tax simpler.

Cons

- Would negatively affect the taxpayers who currently benefit from the deduction.
- Fully 26 states, including Maryland and Virginia (both non-refundable credits), offer some form of this tax expenditure.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation eliminating the deduction for long-term care insurance would raise $151,878 in new tax revenue.