

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

**Legislative Fiscal Note
REVISED**

BILL NUMBER: House Bill 46 (First Edition)
SHORT TITLE: Senior Tax Deduction for Medical Expenses.
SPONSOR(S): Representative Catlin

FISCAL IMPACT					
(\$ in millions)					
	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No Estimate Available		
State Impact	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenues:					
Individual Income Tax	(\$23.6)	(\$22.9)	(\$21.9)	(\$22.6)	(\$23.2)
General Fund Expenditures:					
State Positions:					
NET STATE IMPACT	(\$23.6)	(\$22.9)	(\$21.9)	(\$22.6)	(\$23.2)

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue

EFFECTIVE DATE: This act is effective for taxable years beginning on or after January 1, 2015.

TECHNICAL CONSIDERATIONS:
None

BILL SUMMARY:

House Bill 46 amends GS 105-153.5, making clarifying changes to itemized deduction amounts, and enacting the new GS 105-153.5(a)(2)c, providing for a medical expenses itemized individual income tax deduction. It provides that the deduction is for the amount allowed pursuant to Section 213 of the U.S. Internal Revenue Code for medical expenses incurred for a person who is 65 years old or older before the close of the taxpayer's taxable year. The bill is effective beginning on or after January 1, 2015.

ASSUMPTIONS AND METHODOLOGY:

Through Tax Year 2016, returns whose primary filer is 65 years of age or older in the given tax year are able to claim, as part of their Federal itemized deduction, medical and dental expenses greater than 7.5% of their adjusted gross income. Beginning in Tax Year 2017, that number increases to 10% of the taxpayer's adjusted gross income. Currently, returns with a primary taxpayer younger than 65 years of age are able to claim medical and dental expenses in excess of 10% of their adjusted gross income as a part of their Federal itemized deduction.

According to Federal data from the IRS Statistics of Income Report for Tax Year 2012, 7.0% of all tax returns claim medical expenses at the Federal level and 21.3% of tax returns, where the primary taxpayer is 65 and over, claim medical expenses at the Federal level.

Fiscal Research employs the use of the BearingPoint North Carolina Individual Income Tax Model to estimate the impact of individual income tax law changes. By including unlimited medical expenses, as allowed under the Federal Form 1040 (Schedule A), in the list of allowable North Carolina itemized deductions for those 65 years of age or older, the impact is estimated to be a \$23.6 Million loss in individual income tax revenue in FY 2015-16. This amount assumes that all medical and dental expenses claimed on a return, where the primary taxpayer is 65 or older, is attributable to a taxpayer 65 or older. By FY 2017-18, when all taxpayers will be subject to the Federal 10% adjusted gross income floor, the revenue impact is an estimated loss of \$21.9 Million.

SOURCES OF DATA: BearingPoint North Carolina Individual Income Tax Model; IRS Statistics of Income; Moody's Analytics

TECHNICAL CONSIDERATIONS: NONE

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