COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3142-03
Bill No.: SB 580
Subject: Banks and Financial Institutions; Disabilities; Elderly; Health Care; Nursing Homes and Long-Term Care Facilities; Department of Revenue; Tax Credits; Taxation and Revenue - General
Type: Original
Date: January 21, 2020

Bill Summary: This proposal establishes the "Long-Term Dignity Act."

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue	$0	Less than or More than ($10,821,752)	Less than or More than ($10,617,568)	Less than or More than ($10,413,384)
Total Estimated Net Effect on General Revenue	**$0**	**Less than or More than ($10,821,752)**	**Less than or More than ($10,617,568)**	**Less than or More than ($10,413,384)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on FTE	**0**	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.1160 - Deduction from for contributions to Long-Term Savings Account(s)

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state the number of people who will create and contribute to a long-term savings account is currently unknown. B&P estimates the impact of this proposal by showing account usage similar to the percentage of people that purchase long-term care insurance versus the percentage of people who contribute to a college savings plan. B&P chose long-term care insurance purchases because the use of such funds is similar to this proposal. B&P chose a college savings plan because the duration and tax planning purposes of such plans are similar to the savings accounts established under this proposal. For the purpose of this fiscal note, B&P will assume that individuals contribute the maximum allowed under this proposal ($8,000 for single and $16,000 for married filing joint).

Low Estimate
According to data published by the American Association for Long-Term Care Insurance, there were 350,000 individuals who purchased long-term care insurance during 2019. Of those purchases 50% were by individuals who are married and 50% were by individuals who were single. Using the population of Americans, B&P estimates that 0.1% of individuals purchase long-term care insurance; with 0.05% purchased by single individuals and 0.05% purchased by married individuals.

During 2017, the most recent complete tax year available, there were 1,835,556 single and head of household taxpayers and 1,229,346 married filing joint taxpayers. Using the usage percentage calculated above, B&P estimates that 1,640 taxpayers (982 single and 658 married) may contribute to a long-term care savings account. Using the deduction caps created under subsection 143.1160.2, B&P estimates that deduction claims could total $18,384,000 annually (982 x $8,000 + 658 x $16,000). However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

High Estimate
Based on Fiscal Year 2017 data, 56,892 taxpayers claimed a deduction for contributions into a 529-savings account. Based on the number of taxpayers in 2016 (which corresponds to Fiscal Year 2017 tax return claims), B&P estimates that the college savings plan had a usage rate of 1.8% across all taxpayers. For the purpose of this fiscal note, B&P will assume the same allocation of taxpayers between single and married filing joint as those used for the low estimate

ASSUMPTION (continued)

above. Therefore, B&P estimates that 28,207 taxpayers (16,893 single and 11,314 married) may contribute to a long-term care savings account. Using the deduction caps created under subsection 143.1160.2, B&P estimates that deduction claims could total $316,168,000 annually (16,893 x $8,000 + 11,314 x $16,000). However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

This proposal will impact the calculation under Article X, Section 18(e).

Summary
B&P notes that while this deduction would become available in tax year 2021, the impact to Total State Revenue (TSR) will not occur until taxpayers file their annual return in FY 2022.

Tax Year / Fiscal Year Impact	Deduction Claims	Current Law	TY21* / FY22	TY22* / FY23	TY23* / FY24
Tax Rate		5.40%	5.30%	5.20%	5.10%
LTC Purchase Rate (0.1%)	$18,384,000	$992,736	$974,352	$955,968	$937,584
College Savings Accounts (1.8%)	$316,168,000	$17,073,072	$16,756,904	$16,440,736	$16,124,568

*Assumes each SB 509 (2014) trigger is reached for rate reduction

Therefore, B&P estimates that this proposal could reduce TSR and General Revenue (GR) by $992,736 to $17,073,072 (top tax rate 5.4%) or by $974,352 to $16,759,904 (top tax rate 5.3%) in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by $937,584 to $16,124,568 annually.

Oversight notes B&P has provided an impact consisting of a range beginning with an estimate found using data specific to long-term care insurance purchases and ending with an estimate found using participation rates of college savings accounts.

Officials from the **Missouri Department of Revenue (DOR)** state for all tax years beginning on or after January 1, 2021, a taxpayer shall be allowed a deduction of one hundred percent (100%) of a participating taxpayer's contributions to a long-term care savings account in the tax year of the contribution. The long-term care savings account may be used to pay or reimburse a qualified beneficiary's eligible expenses. These eligible expenses are defined in 26 U.S.C. Section 7702B(c)(2) and includes necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care for the chronically ill or those with a disability.

ASSUMPTION (continued)

DOR notes Missourians are currently eligible to receive a deduction on their Missouri tax return for premiums paid for qualified long-term care insurance or for unreimbursed long-term care expenses. In Fiscal Year 2017, Missourians reported:

Filing Status	Number of Filers Claiming Deduction	Amount Reported	Percent of All Filers in the Filing Status Claiming a Deduction
Single	27,360	$55,649,224	2%
Head of Household	2,149	$3,153,286	1%
Married Filing Jointly	47,072	$140,059,601	6%
TOTAL	76,581	$198,861,111	

However, it appears from this proposal that payments for long-term care insurance do not qualify for this tax credit.

To determine how many taxpayers may choose to participate in savings for their long-term care, DOR considered programs that are similar and information obtained from numerous sources.

Only 0.02% of people purchase long-term care insurance per the American Association of Long-Term Care Insurance. Only 0.04% of people participate in a 529 education savings plan per the Pew Institute. According to the IRS data for Missourians in Tax Year 2019, 20% of Missourians received a distribution from or made a contribution to an individual retirement account. DOR notes 20% may be higher than expected as DOR used the number of filers of the Retirement Savings Credit and the IRA payment filers and the Taxable IRA Distribution numbers to determine filers. It is possible people are counted twice as claiming the retirement savings credit and making an IRA payment.

According to the American Association of Long-Term Care Insurance the average cost of longer term care insurance is $2,007 per year for a single person age 55 and is $2,466 per year for a married couple.

The Missouri Department of Commerce and Insurance stated that the national average of long-term care in the United States in 2016 was:

$253 a day or $7,698 per month for a private room in a nursing home.
$225 a day or $6,844 per month for a semi-private room in a nursing home.
$119 a day or $3,628 per month for care in an assisted living facility (for a one bedroom unit).
$20.50 an hour for a home health aid.
$68 a day for services in an adult day health care facility.

ASSUMPTION (continued)

It appears the nursing home and assisted living facility costs would be included in the eligible expenses outlined in the proposal. This proposal states the amount of the deduction claimed shall not exceed the amount of the taxpayer's Missouri adjusted gross income for the tax year that the deduction is claimed, and shall not exceed eight thousand dollars per taxpayer claiming the deduction, or sixteen thousand dollars if married filing combined.

DOR notes that if the same people who claimed the deduction on their Missouri tax return also opened a long-term care savings account, and were eligible to claim the credit, it would result in the following:

Filing Status	Number of Filers Claiming Deduction	Tax Credit Claimed	Total Credit Claimed
Single	27,360	$8,000	$218,880,000
Head of Household	2,149	$8,000	$17,192,000
Married Filing Jointly	47,072	$16,000	$753,152,000
TOTAL	76,581		$989,224,000

It is noted that the savings account must be open for more than 1 year prior to withdrawals being made from the account to cover the eligible expenses. Additionally, as shown with other savings account programs, the participation rate is greatly overstated above. DOR instead will assume using the number of filers claiming the deduction and the 20% (amount of those that save for retirement) may produce a more realistic number of filers.

Filing Status	Current Number of Filers Claiming Deduction	20% that would establish the Account	Tax Credit Claimed	Total Credit Claimed
Single	27,360	1,701	$8,000	$13,608,000
Head of Household	2,149	3,402	$8,000	$27,216,000
Married Filing Jointly	47,072	10,210	$16,000	$163,360,000
TOTAL	76,581			$204,184,000

DOR notes that since this is a deduction it would go against the current expected tax rate. This projected tax rates assume that SB 509 (2014) is triggered each year consecutively. The loss to GR is estimated to be:

ASSUMPTION (continued)

	Projected Tax Rate	Total Deduction
TY 2021	5.30%	$10,821,752
TY 2022	5.20%	$10,617,568
TY 2023	5.10%	$10,413,384

Fiscal Year Impact:

Fiscal Year	Total Deduction
FY 2021	$0
FY 2022	$10,821,752
FY 2023	$10,617,568
FY 2024	$10,413,384

Oversight notes DOR has provided an estimate found by using participation rates for retirement savings.

Oversight notes Section 143.1160 of this proposed legislation would allow taxpayers who make contributions to an established Long-Term Care Savings Account to claim a deduction in an amount equal to the lesser of 100 percent of the contribution(s) made to a Long-Term Care Savings Account within a given tax year or $8,000 if filing single or $16,000 filing combined.

Oversight notes this proposed legislation, beginning for all tax years beginning on or after January 1, 2021, would allow any individual who is a resident of this state to open a Long-Term Savings Account and make contributions to the account(s) which would qualify the individual for the deduction created under this section. Oversight notes the possibility of zero Missouri residents participating in this program as well as one hundred percent of Missouri residents participating in this program. Oversight assumes it to be highly unlikely that either of the previous two scenarios occur.

Oversight recognized, based on information published by the Congressional Research Service, Long-Term Care expenditures for the United States during 2016 totaled $366 billion. The Congressional Research Service stated the expenditures of Long-Term Care, during 2016 were provided by the following sources: Medicaid (42.2%), Medicare (21.84%), Other Public (6.31%), Private Insurance (7.54%), Other Private (6.53%) and Out-Of-Pocket (15.58%).

ASSUMPTION (continued)

Information published by the Kaiser Family Foundation indicates the State of Missouri received approximately $2,901,085,449 from Medicaid for Long-Term Care during Fiscal Year 2018.

Using the percentages provided by the Congressional Research Service, Oversight used the Medicaid expenditures for Missouri during Fiscal Year 2018 reported by the Kaiser Family Foundation to estimate the expenditures to Missouri from the other sources of Long-Term Care mentioned above. Oversight provides the following expenditures per source for the State of Missouri with an estimated total of $6,875,046,411 spent on Long-Term Care in Missouri:

Total Estimated Missouri Expenditures on Long-Term Care	**$6,875,046,410.55**	**$2,901,085,449 / 42.2%**
Medicaid Spending On Long Term Care Per State (Provided by Kaiser Family Foundation)	$2,901,085,449	Total X 42.2%
Medicare Spending Per Congressional Research Service	$1,501,274,141	Total X 21.84%
Other Public Per Congressional Research Service	$434,035,453	Total X 6.31%
Other Private Per Congressional Research Service	$449,066,983	Total X 6.53%
Private Insurance Per Congressional Research Service	$518,587,813	Total X 7.54%
Out of Pocket Per Congressional Research Service	$1,070,996,571	Total X 15.58%

As shown above, Oversight estimates out-of-pocket expenses for Long-Term Care paid by Missouris for one year totals $1,070,996,571.

Based on the estimates above, Oversight estimates that the deduction created under this section could amount to $1,070,996,571, provided that the individuals spending such amount(s) contribute or donate their monies to their Long-Term Care Savings Account for the expense.

Oversight notes that the deduction is allowable pre-tax and does not represent a dollar-for-dollar reduction to TSR or GR; the deduction must be multiplied by the applicable (top) tax rate to estimate a true decrease to TSR and GR. Oversight notes the following tax rates per tax year, assuming the triggers created under SB 509 (2014) are met, resulting in a reduction of the top rate of personal income tax by one-tenth of one percent until fully implemented in Tax Year 2023:

ASSUMPTION (continued)

Tax Year	Tax Rate
2020	5.40%
2021	5.30%
2022	5.20%
2023	5.10%

Oversight notes the first tax year in which the deduction under this proposed legislation could be claimed is Tax Year 2021, which will not be filed until after January 1, 2022 (Fiscal Year 2022). Oversight estimates the following decreases to TSR and GR per fiscal year:

Fiscal Year	Tax Rate Applied	Decrease To TSR/GR
2022	5.30%	$56,762,818
2023	5.20%	$55,691,822
2024	5.10%	$54,620,825

Oversight notes the program's participation rate and contribution amounts are unknown and the estimated fiscal impacts vary widely. Therefore, for the purposes of this fiscal note, Oversight will utilize DOR's estimate, but state the amount could be less than or more than.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

ASSUMPTION (continued)

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state they do not possess information that would indicate the number of filers that would open such an account. Therefore, they are unable to estimate the impact this proposed legislation may have on GR.

Oversight notes the **Missouri Department of Commerce and Insurance** has stated the proposed legislation would not have a direct fiscal impact on their respective organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this organization.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
GENERAL REVENUE FUND				
Revenue Reduction - Section 143.1160 - Tax deduction for contributions made to Long-Term Care Savings Account	$0	Less than or More than ($10,821,752)	Less than or More than ($10,617,568)	Less than or More than ($10,413,384)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**Less than or More than ($10,821,752)**	**Less than or More than ($10,617,568)**	**Less than or More than ($10,413,384)**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act establishes the "Long-Term Care Dignity Act". Beginning January 1, 2021, an individual may open a long-term care savings account and designate the account to be used to pay a designated qualified beneficiary's eligible long-term care expenses. This act creates an income tax deduction for contributions to a long-term savings account in the amount of 100% of the contribution, not to exceed the taxpayer's Missouri adjusted gross income for the tax year the deduction is claimed and not to exceed $8,000 for an individual or $16,000 for married individuals filing jointly. Moneys withdrawn from the account shall be subject to recapture and the account holder subject to a penalty if it has been less than one year since the first deposit in the account or the moneys have been used for any purpose not specified in the act.
The income tax deduction created by this act shall sunset December 31, 2026, unless reauthorized by the General Assembly. (Section(s) 143.1160 and Section 191.1601 - 191.1606)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
University of Missouri's Economic and Policy Analysis Research Center
Joint Committee on Administrative Rules
Missouri Secretary of State's Office
Missouri Department of Insurance and Commerce

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