Medical Expense Deduction and H.166

Senate Committee on Finance

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4/21/2023

Medical Expense Deduction History

- Starting with Act 140 of 2002, Vermont's taxable income definition started with federal taxable income, which subtracts deductions from gross income
  - This means the federal medical expenses deduction reduced Vermont taxable income
- 2018 Act 11 (Spec. Sess.), Sec. H.1. decoupled from federal itemized deductions
  - Effectively eliminated the medical expense deduction on Vermont taxes

Medical Deduction Reinstated

- Effective for tax year 2019 and going forward, Act 71 of 2019, Sec. 2 created a new deduction for medical expenses within the personal income tax.
- Taxpayers can deduct the amount of their federal itemized medical expense deduction minus:
  - The amount of the Vermont standard deduction and personal exemptions.
  - Any amount deducted for entrance fees or monthly payments to a continuing care retirement community (CCRC) which exceeds the limits for premiums paid on qualified long-term care insurance contracts.

2022 Limits on Long-Term Premiums

- H.166 would remove language that limits the deduction for entrance fees or recurring monthly payments made to a continuing care community to what is outlined by 26 U.SC. 213(d)(10)(A)

Age	Limit
40 or under	$450
Age 41 to 50	$850
Age 51 to 60	$1,690
Age 61 to 70	$4,510
Age 71 or over	$5,640

Source: IRS -- https://apps.irs.gov/app/vita/content/00/00_25_005.jsp

Medical Deduction Example with CCRC Expenses

Example 2

For tax year 2022, a married couple ages 65 and 66 (with no children) itemizes their deductions on their federal income tax return and claims $50,000 in medical expenses, ($20,000 of which was for an entrance fee or monthly payments made to a continuing care retirement community). Their deductible amount for medical expenses for the Vermont income tax deduction will be $15,720.

Federal deductible medical expenses	$50,000
Subtract $14,600 (Vermont standard deduction for two seniors)	-$14,600
Subtract $8,700 (two Vermont personal exemptions)	-$8,700
Only $4,510 x 2 = $9,020 is allowed at the Vermont level for monthly payments or entrance fees to a CCRC so the overage ($20,000 - $9,020 = $10,980) needs to be subtracted. Subtract $10,980 (overage)	-$10,980
Deductible Vermont medical expenses equals ($50,000 - $14,600 - $8,700 - $10,980 = $15,720)	$15,720

Enter $15,720 on Vermont Form IN-112 on the line for the "Medical Expense Deduction."

Source: Vermont Department of Taxes

What is a continuing care retirement community?

- Wake Robin in Shelburne
- Residents pay an entrance fee of between $210,210 and $832,180 depending on floor plan
  - The entrance fee includes a “pre-payment” of long-term care
- Residents also pay a monthly fee of between $3,790 and $12,230, which covers occupancy and living expenses
- Continuing care communities are regulated in VSA Title 8, along with the banking and insurance industry

- Source: https://www.wakerobin.com/wp-content/uploads/2023-Fee-Schedule_-1.pdf

Fiscal Implications of H.166

- At the federal level, approximately one-third of the entrance fee and monthly expenses may be tax deductible as medical expenses per IRS
- H.166 would allow the same deduction
- This would likely result in large reductions in taxable income for members of CCRCs

Fiscal Implications of H.166

- In 2019, JFO estimated that allowing entrance and monthly fees to be partially deducted as medical expenses would cost $250,000
- Based on the estimated cost of the medical expense deduction in fiscal year 2024, the preliminary estimate of the cost of H.166 is $500,000 per year
- This is a preliminary estimate
    - Costs could grow if other CCRCs are licensed or fees at the CCRC increase

Thank you!