

Medical Expenses Deduction: Research And Ideas

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April 16, 2019

Who would benefit from a medical deduction as written in S.126?

- By income, the impact hits across the income distribution, with slightly higher benefits for those with between \$70,000 and \$150,000 in AGI

Tax Summary of Reintroducing Medical Deduction (S.126)						
Adjusted Gross Income		Number of Returns Impacted	Percent of Total Tax Returns Impacted	Average Tax Decrease	Change in Effective Tax Rates	Total Tax Impact (Millions)
-Infinity	\$20,000	204	0.40%	-\$112.19	0.13%	-\$0.02
\$20,000	\$30,000	390	1.06%	-\$189.27	-0.01%	-\$0.07
\$30,000	\$40,000	457	1.27%	-\$245.57	-0.01%	-\$0.11
\$40,000	\$50,000	483	1.61%	-\$303.59	-0.01%	-\$0.14
\$50,000	\$60,000	500	2.08%	-\$469.22	-0.02%	-\$0.22
\$60,000	\$70,000	482	2.45%	-\$600.76	-0.02%	-\$0.28
\$70,000	\$80,000	463	2.77%	-\$669.04	-0.03%	-\$0.29
\$80,000	\$100,000	691	2.52%	-\$893.74	-0.03%	-\$0.59
\$100,000	\$125,000	678	2.78%	-\$1,089.62	-0.03%	-\$0.70
\$125,000	\$150,000	450	3.07%	-\$1,318.96	-0.03%	-\$0.56
\$150,000	\$200,000	413	2.85%	-\$1,134.79	-0.02%	-\$0.45
\$200,000	\$300,000	244	2.50%	-\$1,894.78	-0.02%	-\$0.44
\$300,000	Infinity	131	1.41%	-\$3,266.99	-0.01%	-\$0.41
Total		5,586		-\$805.29	-0.02%	-\$4.3

Assumes 10% AGI floor on deduction for medical expenses

Catastrophic vs. Continuing Care

- The medical expenses deduction is used for numerous purposes.
- How much of it is used for continuing care facilities and how much of it is used for catastrophic, non-continuing care?
- Caveat: difficult to discern exactly.
 - The data is not broken out on the return

S.126 Tax Cuts for Residents					
Town	Total Tax Cut (millions)	Percent of Total	Number of Returns	Percent of Total Returns	
Shelburne	-\$0.52	12.6%	378	6.11%	
South Burlington	-\$0.21	5.1%	263	4.25%	
Burlington	-\$0.21	5.0%	317	5.13%	
Middlebury	-\$0.16	4.0%	144	2.33%	
Manchester	-\$0.11	2.7%	116	1.88%	
Brattleboro	-\$0.10	2.4%	148	2.39%	
Hartford	-\$0.10	2.3%	144	2.33%	
Bennington	-\$0.09	2.2%	161	2.60%	
Dorset	-\$0.09	2.2%	57	0.92%	
Woodstock	-\$0.09	2.1%	102	1.65%	
Essex Junction	-\$0.08	2.0%	116	1.88%	
Montpelier	-\$0.08	1.8%	90	1.46%	
Colchester	-\$0.07	1.8%	123	1.99%	
Stowe	-\$0.07	1.6%	96	1.55%	
Rutland City	-\$0.06	1.5%	124	2.01%	
All Others	-\$2.09	50.7%	3330		
Total Tax Change	-\$4.11				
Total Tax Change Non-Residents	-\$0.29				

Catastrophic vs Continuing Care

- \$2.64 of \$4.1 million (64%) is used by taxpayers over the age of 65.

S.126 Tax Cuts for Residents Age 65+		
Town	Total Tax Cut (millions)	Percent of Total
SHELBURNE	-\$0.42	16.0%
BURLINGTON	-\$0.15	5.6%
SOUTH BURLINGTON	-\$0.14	5.5%
MIDDLEBURY	-\$0.12	4.4%
DORSET	-\$0.08	3.0%
BRATTLEBORO	-\$0.08	2.9%
MANCHESTER	-\$0.07	2.6%
WOODSTOCK	-\$0.07	2.5%
BENNINGTON	-\$0.06	2.3%
ESSEX JUNCTION	-\$0.06	2.2%
HARTFORD	-\$0.05	2.1%
MONTPELIER	-\$0.05	2.0%
STOWE	-\$0.04	1.6%
RUTLAND CITY	-\$0.04	1.6%
COLCHESTER	-\$0.04	1.5%
All Others	-\$1.17	44.2%
Total Tax Change	-\$2.64	

Catastrophic vs. Continuing Care

- 77% of tax benefits would go to those over the age of 60

S.126 Tax Cuts for Residents by Age	
Age Group	Total Tax Cut (millions)
18-30	-\$0.07
31-40	-\$0.20
41-50	-\$0.25
51-60	-\$0.44
61-70	-\$1.25
71-80	-\$1.04
81-90	-\$0.60
90+	-\$0.25
Total	-\$4.10

- **Conclusion:** Though anyone with medical expenses would benefit, it appears as though those in continuing care/long term care communities would benefit the most

Potential Options for a Medical Deduction

- Note: only S.126 has been discussed in committee

Proposal	Cost (in Millions)
Allow a full deduction (S.126)	-\$4.3
Cap a medical deduction at \$20,000	-\$2.7
Cap a medical deduction at \$15,000	-\$2.3
Charitable Tax Credit for Medical expenses or Charitable giving	-\$2.2
Only allow Med Deduction in excess of VT Standard Deduction	-\$3.0
Only allow Med Deduction in excess of VT SD and Personal Exemptions	-\$2.3

Potential Offsets/Pay-Fors

- **ATTENTION**: none of the following ideas has been proposed by any legislator.

Possible Offsets	Revenue Raised (millions)	
Set top income tax rate to 8.925% (from 8.75%)	\$4.6	
Set income tax rates for highest two brackets to 7.75% and 8.85% (from 7.6% and 8.75%)	\$4.2	
End the Social Security deduction	\$4.4	
Raise Estate Tax Exemption to only \$3.25 million by January 2020 (relative to House)	\$0 in FY20, 1.9m in FY21, \$4.0 in FY22	
New Property Transfer Tax rate on transfers above \$500,000. Rate of:	1.50%	\$1.4
	1.65%	\$2.3
	1.75%	\$3.0
	1.85%	\$3.5
	2.00%	\$4.4
Capital Gains Exclusion: 30% exclusion, \$350k cap, and \$5,000 exclusion goes to \$4000	\$1.2	