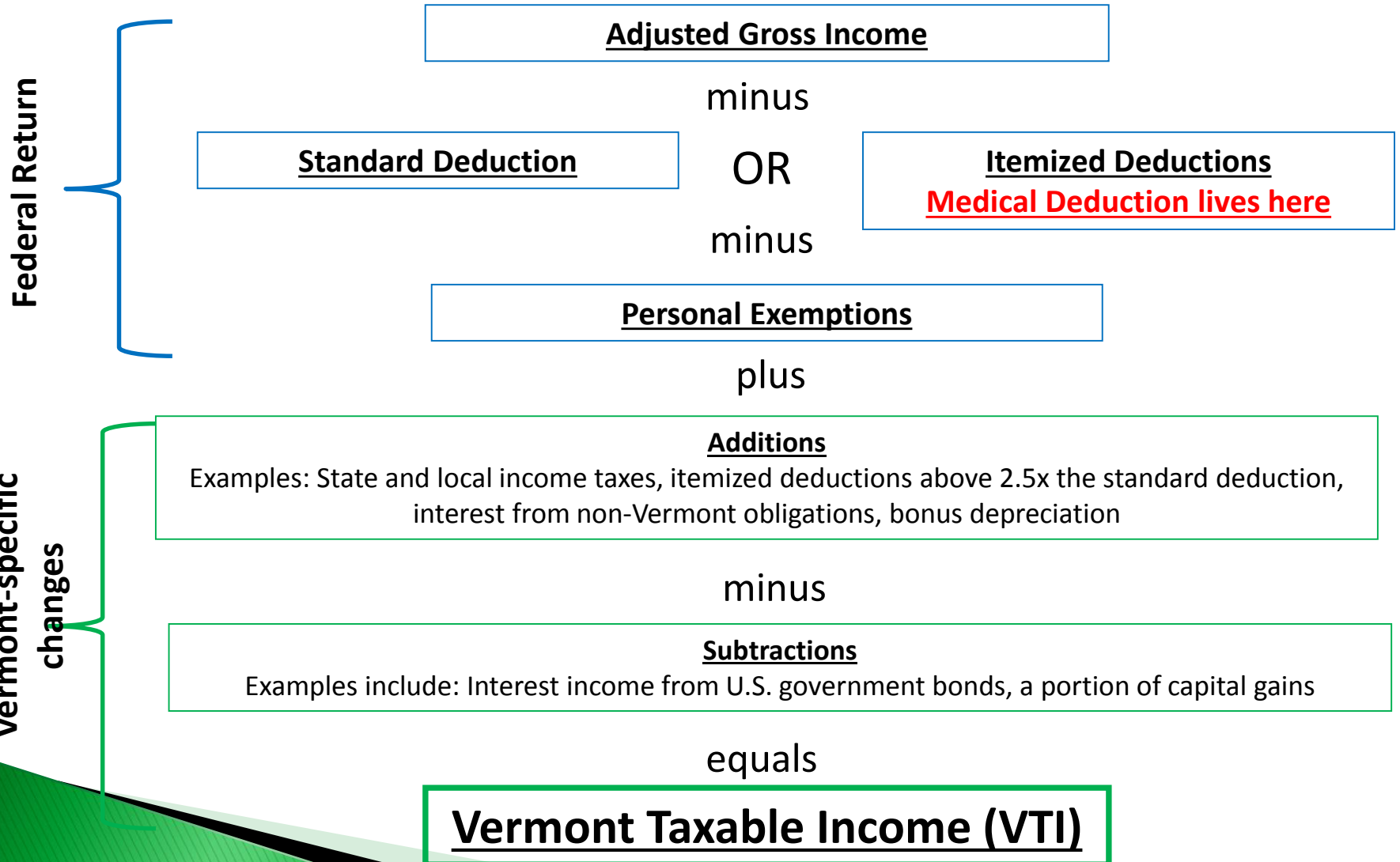


S.126: Medical Expenses Deduction

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Recap: 2017 Tax Year



2018 Tax Year

Federal Form

1040

Adjusted Gross Income

minus

Subtractions from Adjusted Gross Income

Standard Deduction

\$6,000 for single filer,
\$12,000 for married filer

Personal Exemptions

\$4,150 for you, your
spouse, and any
dependents

Other Subtractions

- Capital Gains Exclusion
- Social Security Exemption
- Interest income from U.S. bonds

plus

Additions to Adjusted Gross Income

Examples included: interest from VT state and local bonds, non-Vermont state and local bonds, bonus depreciation

equals

Vermont Taxable Income

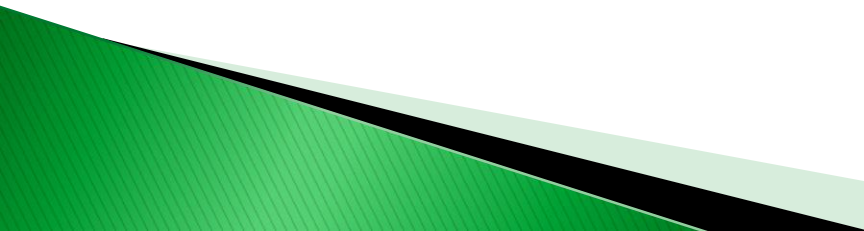
Medical and Dental Deduction

- ▶ **Only available to taxpayers who itemize on their Federal taxes**
- ▶ **Medical expenses over 7.5% of Adjusted Gross Income (AGI) can be subtracted from income**
 - In 2019, threshold becomes 10%
- ▶ **Example: \$60,000 AGI, \$30,000 in medical expenses (assumes taxpayer is an itemizer)**
 - 7.5% of AGI = \$4500
 - Deductible medical expenses: $\$30,000 - \$4,500 = \$25,500$
 - Taxable income = $\$60,000 - \$25,500 = \$34,500$

What's the impact?

- ▶ Less than it would have otherwise been
 - Federal standard deduction doubling = less people itemizing = less people using medical deduction
 - Itemizing returns expected to be 9–10% this year, as opposed to 30+% in 2017
- ▶ Impact is largely limited to taxpayers with very high medical expenses
 - Still able to itemize (beat the \$12,000/\$24,000 standard deduction) on medical expenses alone

Example impact

- Typical married taxpayer with \$150,000 in income (\$15k in itemized deductions)
 - 2017 VT taxes: \$6,572
 - 2018 VT taxes: \$6,461
 - Same taxpayer with \$70,000 in medical expenses
 - 2017 VT taxes: \$2,022
 - 2018 VT taxes: \$6,461
 - Why? Because this taxpayer used to be able to deduct a significant portion of income from medical expenses.
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Overall Impact

Tax Summary of Reintroducing Medical Deduction						
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	218	0.43%	-\$110.50	-0.14%	-\$0.02
\$20,000	\$30,000	434	1.17%	-\$186.91	-0.01%	-\$0.08
\$30,000	\$40,000	556	1.54%	-\$238.40	-0.01%	-\$0.13
\$40,000	\$50,000	574	1.92%	-\$300.65	-0.01%	-\$0.16
\$50,000	\$60,000	641	2.67%	-\$429.05	-0.02%	-\$0.26
\$60,000	\$70,000	627	3.19%	-\$550.32	-0.03%	-\$0.33
\$70,000	\$80,000	615	3.68%	-\$602.74	-0.03%	-\$0.35
\$80,000	\$100,000	978	3.57%	-\$756.12	-0.03%	-\$0.70
\$100,000	\$125,000	972	3.98%	-\$944.70	-0.04%	-\$0.87
\$125,000	\$150,000	619	4.22%	-\$1,173.59	-0.04%	-\$0.69
\$150,000	\$200,000	581	4.00%	-\$1,030.23	-0.03%	-\$0.57
\$200,000	\$300,000	360	3.69%	-\$1,595.32	-0.03%	-\$0.55
\$300,000	Infinity	190	2.04%	-\$2,767.97	-0.01%	-\$0.50
Total		7,365		-\$744.61	-0.02%	-\$5.21

- ▶ Average medical deduction: around \$22,000
- ▶ About of 1 / 3rd of these 7,365 taxpayers had medical expenses that were greater than 50% of total itemized deductions
- ▶ Note: Cost will continue to grow as population gets older