

**How we got here:**

2017 TCJA. Opportunity to insulate VT'ers from a \$30M tax hike, but no feasible way to replicate the tax situation for each of our 380K taxpayers. It was also seen as an opportunity to adopt some of the recommendations of the 2011 Blue Ribbon Tax Structure Commission Report: "Administrative costs are a loss to society, and complicated taxation undermines voluntary compliance by creating incentives to shelter and disguise income." (16) "An Adjusted Gross Income base removes all itemized deductions. Commission recommendation 1B encourages the Legislature not to add these policy choices back as Vermont specific deductions. The Commission recommends the elimination of these expenditures as they violate the Commission's principle of neutrality and may not accomplish public policy goals despite their considerable expense. Also, removal of deductions provides the revenue necessary to buy down income tax rates, place all taxpayers on a level playing field, and eliminate the opaque maze of deductions that are deployed, most valuably, by a small group of taxpayers." (45)

**Federal Tax Policy** Is there equity in current federal treatment of medical expenses? Much of the frustration I have heard about the loss of this tax preference in VT has to do with out of pocket payers for senior living, medical and long term care costs. Very generally, nursing home and long term care is funded by one of three means (sometimes a combo): 1.)medicaid/medicare, 2.) through LTC insurance, or 3.) through direct payment, or essentially taxpayers who are self funding or self-insuring LTC. (1) Medicaid eligible taxpayers rarely would have the taxable income or the out of pocket cost to receive any tax benefit from the medical deduction. Any exceptions to this would certainly be candidates for "Extraordinary Relief" for financial hardship reasons. (2.)LTC insurance premiums have limited deductibility. Self-insured taxpayers who have expenses in excess of 7.5% (10%)of AGI receive significant tax benefit from the medical expense deduction, if they have significant (otherwise) taxable income to deduct from. This creates a potential inequity between those who plan for their LTC through insurance, vs. those who do so through self-insurance.

**Gross impact of no deduction (just cost the isolated value of the lost deduction with no credit for all the favorable VT tax changes)**

AGI Bottom	AGI Top	Number of Filers	Average Impact (\$)
-	25,000	416	\$ 124
25,001	50,000	1,301	\$ 266
50,001	100,000	2,653	\$ 625
100,001	125,000	882	\$ 991
125,001	150,000	547	\$ 1,138
150,001	200,000	487	\$ 1,040
200,001	300,000	313	\$ 1,631
300,001	500,000	127	\$ 2,093
500,001	Infinity	51	\$ 3,694
	<b>Totals</b>	6,777	\$ 742 (approx. 1.8% of VT filers)
<b>Total Cost</b>		\$	5,027,604

**Mitigating factors:**

	Value	Tax Equivalent Value
New VT Personal Exemption:	\$4,150 per person	Approx \$145 per person
New VT SS exemption:	Up to \$28,437 per person	Up to \$995 tax equivalent
Lower VT Rates:	income dependent	Varies, but \$20-\$200 is a fair range for most taxpayers

### So what is the net impact?

Hard to generalize. It really depends on each taxpayer. An individual taxpayers who would have received VT tax benefit from full flow through of the medical expense deduction may receive significant benefits from some of the items above, and come out a net winner, or may receive next to no benefit. We devised two blunt ways to see how many people (and to what extent) are NET negatively impacted

### Medical Expense over \$25,000

	Filers	Gross Amount Deducted	% of total VT filers	Approx. VT Tax value per filer
2016	1,304	\$ 97,900,000	0.34%	\$ 3,754
2017	1,212	\$ 73,900,000	0.32%	\$ 3,049

### Medical Expense Over New VT Std Deduction

10000 *	*	*		
25000	278 \$	(120) \$		(33,440)
50000	757 \$	(268) \$		(202,649)
100000	1409 \$	(742) \$		(1,045,989)
125000	437 \$	(1,210) \$		(528,557)
150000	305 \$	(1,441) \$		(439,646)
200000	277 \$	(1,288) \$		(356,726)
300000	199 \$	(1,979) \$		(393,763)
500000	90 \$	(2,860) \$		(257,419)
1000000	33 \$	(4,918) \$		(162,305)
10000000 *	*	*		
Totals	3,796 \$	(905) \$		(3,400,000)