FISCAL NOTE

SB 3936 - HB 3948

February 6, 2008

SUMMARY OF BILL: Creates a tax deduction, to be applied against a taxpayer's Hall Income Tax liability, equal to the amount of insurance premiums paid by the taxpayer for long-term care insurance.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - $70,000 / One-Time
Decrease State Revenue - $1,250,000 / FY08-09
$2,500,000 / FY09-10 and thereafter

Decrease Local Revenue - $750,000 / FY08-09
$1,500,000 / FY09-10 and thereafter

Assumptions:

- The deduction authorized would be equal to the total amount of premiums paid by the taxpayer to provide long-term care insurance for the taxpayer and/or the taxpayer's spouse.
- The fiscal impact of this bill is dependent upon multiple unknown factors such as the number of taxpayers who have long-term care insurance as defined by the bill, the extent of total long-term care premiums paid by such taxpayers, and the extent of Hall Income Tax liabilities for such taxpayers.
- Long-term care insurance premiums are estimated to range from $800 per year to $2,500 per year based on demographic data of the insured.
- The majority of taxpayers are within demographic categories that result in higher premiums (relative to an average premium). Thus, the premium for qualified taxpayers is estimated to average 80% of the high end of the estimated range (or $2,000 per year).
- A minimum of 2,000 taxpayers qualify for the deduction as proposed.
- 100% of those who qualify are able to utilize the full amount of the deduction against their Hall Income Tax liability.
- Total Hall Income Tax deductions are estimated to be $4,000,000 (2,000 taxpayers x $2,000 annual premium = $4,000,000) per year.

- Pursuant to Tenn. Code Ann. § 67-2-119(a), revenue generated by the Hall Income Tax is allocated five-eighths (or 62.5%) to the state's general fund and three-eighths (or 37.5%) to local governments.
- The decrease to state revenue is estimated to be $2,500,000 ($4,000,000 x 62.5% = $2,500,000) per year.
- The decrease to local revenue is estimated to be $1,500,000 ($4,000,000 x 37.5% = $1,500,000) per year.
- First-year impact is estimated at 50% of first full-year impact due to effective date.
- According to the Department of Revenue, there would be one-time departmental expenditures for software modifications for accommodating an additional tax deduction. Such one-time increase to state expenditures is estimated to be $70,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director

/rnc