

**DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement**

1. **Patron** Christopher T. Head
3. **Committee** Senate Finance and Appropriations
4. **Title** Individual Income Tax;
Family Caregiver Tax Credit

2. **Bill Number** SB 419
House of Origin:
 Introduced
 Substitute
 Engrossed
- Second House:**
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would establish an individual income tax credit for expenses incurred by family caregiver that are directly related to the care of an eligible family member. The amount of the credit would be equal to 50 percent of the eligible expenditures incurred by the family caregiver. No family caregiver would be permitted to claim more than \$1,000 in credits for a taxable year. The credit would not be subject to an annual credit cap.

This bill would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2029.

6. **Budget amendment necessary:** Yes.
 Item(s): 257 and 258, Department of Taxation

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2023-24	\$32,510	1	GF
2024-25	\$226,496	1	GF
2025-26	\$114,627	1	GF
2026-27	\$95,206	1	GF
2027-28	\$97,209	1	GF
2028-29	\$99,336	1	GF
2029-30	\$101,464	1	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) estimates that this bill would result in administrative costs of \$32,510 in FY 2024, \$226,496 in FY 2025, \$114,627 in FY 2026, \$95,206 in FY 2027, \$97,209 in FY 2028, \$99,336 in FY 2029 and \$101,464 in FY 2030. These costs would be incurred for purposes of hiring one full time employee to administer

the Department's responsibilities with respect to the credit, and additional ongoing operational expenses related to overseeing this credit program.

Revenue Impact

This bill would result in an unknown negative General Fund revenue impact beginning in Fiscal Year 2025 and continuing each year thereafter. It is unknown to what extent family caregivers would qualify for and claim this credit. Because the aggregate amount of credits that taxpayers may claim per taxable year would be uncapped, this credit could result in a significant negative General Fund revenue impact.

According to data for Taxable Year 2021, the existing Virginia Deduction for Child and Dependent Care Expenses was claimed on more than 177,000 returns. If it is assumed that 20 percent of these returns had expenses for family members that would qualify under this legislation and applying this bill's income limits, this bill could have an estimated annual negative General Fund revenue impact of up to \$21 million. The actual impact would vary depending on how many taxpayers actually qualify and claim this credit.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Tax Incentives for Caregivers

Medical Expense Deduction

For Taxable Year 2023, taxpayers who choose to itemize their deductions are permitted to deduct expenses for medical care for themselves, their spouse, and their dependents that exceed 7.5 percent of their federal adjusted gross income. Deductible medical expenses are generally those amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body. Taxpayers may also deduct transportation expenses primarily for and essential to medical care; expenses for qualified long-term care services, or expenses for insurance covering medical care or for any qualified long-term care insurance contract.

For Virginia income tax purposes taxpayers are required to make the same election regarding the standard deduction versus itemizing their deduction that they made on their federal returns. For taxpayers choosing to itemize their deductions, Virginia permits a deduction to the extent their medical expenses exceed 10 percent of their federal adjusted gross income.

Credit for Other Dependents

A taxpayer is permitted to claim a nonrefundable income tax credit on their federal income tax return for any of the taxpayer's dependents who are not qualifying children under age

17. For Taxable Year 2023, the amount of the credit is equal to \$500 per qualifying dependent. Generally, this credit will apply to qualifying children who are past child tax credit age, or qualifying relatives, such as dependent parents. The credit is phased out beginning with taxpayers with federal adjusted gross income of \$200,000 (\$400,000 for married persons filing jointly).

Child and Dependent Care Expenses Credit

For Taxable Year 2023, taxpayers are permitted to claim a credit of up to 35 percent of the first \$3,000 dollars (\$6,000 for two or more qualified persons) in qualified child and dependent care expenses on their federal income tax returns. Qualified child and dependent care expenses include certain household service and expenses for care of the qualified person. A taxpayer may claim this credit only if the care was provided so the taxpayer could work or look for work, the care was for one or more qualifying persons, and the person providing the care was not the taxpayer's spouse; the parent of the taxpayer's qualifying child; a dependent of the taxpayer's; or the taxpayer's child who is either a dependent of the taxpayer's or under the age of 19 by the end of the taxable year.

Virginia Deduction for Child and Dependent Care Expenses

Virginia permits a taxpayer that is eligible to claim the federal child and dependent care expenses credit to claim a deduction in an amount equal to the amount of employment related expenses upon which the federal credit is based for household and dependent care services necessary for gainful employment.

Proposed Legislation

This bill would establish an individual income tax credit for expenses incurred by family caregiver that are directly related to the care of an eligible family member. The amount of the credit would be equal to 50 percent of the eligible expenditures incurred by the family caregiver. No family caregiver would be permitted to claim more than \$1,000 in credits for a taxable year. The credit would not be subject to an annual credit cap.

"Activities of daily living" or "ADLs" would be defined as bathing, dressing, toileting, transferring or moving, bowel control, bladder control, and eating or feeding.

"Eligible expenditures" would be defined as expenses incurred by a family caregiver that are directly related to the care of an eligible family member, including (i) improvements or alterations to the family caregiver's primary residence to permit the eligible family member to remain mobile, safe, and independent; (ii) the purchase or lease of equipment or technology that assists the eligible family member in carrying out one or more activities of daily living; or (iii) expenditures related to hiring a home care aide or personal care attendant, respite care, adult day care, transportation, and legal or financial services. Eligible expenditures would not include expenses incurred in carrying out general household maintenance, including painting, plumbing, electrical repairs, or exterior maintenance. If the family caregiver receives any compensation or reimbursement for the eligible expenditures, they would not qualify for the credit.

"Eligible family member" would be defined as an individual who (i) is at least 18 years of age during the taxable year; (ii) is a resident of the Commonwealth; (iii) requires assistance with one or more ADLs, as certified by a licensed physician, physician assistant, nurse practitioner, or registered nurse; and (iv) qualifies as a dependent of the family caregiver or is in the care of the family caregiver as a legally appointed guardian.

"Family caregiver" would be defined as an individual, or in the case of married persons, an individual and his spouse, who (i) provides care to one or more eligible family members during the taxable year and (ii) has federal adjusted gross income that is no greater than \$100,000 for an individual or \$200,000 for married persons.

The amount of the credit that may be claimed in any single taxable year would not be permitted to exceed the family caregiver's liability for income taxes for that taxable year. If the amount of the credit allowed under this section exceeds the family caregiver's tax liability for the taxable year in which the eligible expenditures occurred, the amount that exceeds the tax liability may be carried over for credit against the income taxes of the family caregiver in the next five taxable years or until the total amount of the tax credit has been taken, whichever is sooner.

This bill would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2029.

Similar Legislation

House Bill 1078 is identical to this bill.

House Bill 887 would establish an identical Family Caregiver Tax Credit and make certain other changes.

cc : Secretary of Finance

Date: 1/27/2024 JLOF
SB419F161