Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2017 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **17-1197/1**	Introduction Number **AB-0596**

Description
long-term care investment accounts and making appropriations

Fiscal Effect

State:
- [ ] No State Fiscal Effect
- [ ] Indeterminate
  - [ ] Increase Existing Appropriations
  - [ ] Decrease Existing Appropriations
  - [ ] Create New Appropriations
  - [ ] Increase Existing Revenues
  - [X] Decrease Existing Revenues
  - [X] Increase Costs - May be possible to absorb within agency's budget [X] Yes [ ] No
  - [ ] Decrease Costs

Local:
- [ ] No Local Government Costs
- [ ] Indeterminate
  1. [ ] Increase Costs — [ ] Permissive [ ] Mandatory
  2. [ ] Decrease Costs — [ ] Permissive [ ] Mandatory
  3. [ ] Increase Revenue — [ ] Permissive [ ] Mandatory
  4. [ ] Decrease Revenue — [ ] Permissive [ ] Mandatory
  5. Types of Local Government Units Affected
     [ ] Towns [ ] Village [ ] Cities
     [ ] Counties [ ] Others
     [ ] School Districts [ ] WTCS Districts

Fund Sources Affected
[X] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DOR/ Bradley Caruth (608) 261-8984	Jamie Adams (608) 266-6785	11/6/2017

Fiscal Estimate Narratives

DOR 11/6/2017

LRB Number **17-1197/1**	Introduction Number **AB-0596**	Estimate Type **Original**
Description long-term care investment accounts and making appropriations		

Assumptions Used in Arriving at Fiscal Estimate

This bill requires the Department of Health Services to establish a long-term care investment program that allows individuals, married couples, domestic partners, or trusts to establish long-term care investment accounts to be used for qualified long-term care expenses.

The bill provides that any amount contributed to an account each year, up to $5,500 ($8,500 for those over age 50) is exempt from taxation, as is any interest, dividends, or other gain that accrues in the account if such amounts are redeposited into the account. Amounts withdrawn from the account are also exempt from taxation if the withdrawal is for a qualified use.

Beginning in 2018, the account limits are indexed for inflation. Amounts contributed to an account that exceed the deductible maximum may be carried forward to be claimed as a deduction in the next taxable year. Long-term care expenses that are non-taxable under this bill do not qualify as eligible expenses for the purpose of the itemized deduction credit.

The effect on tax revenue of the bill will depend on the aggregate amount deposited into eligible accounts as well as the typical account earnings. Because these amounts are unknown, the fiscal effect of the bill is also unknown.

As a reference point, Wisconsin college savings accounts have similar deductions for contributions and account earnings. In the 2017 Tax Exemption Devices, the Department of Revenue estimated that the deduction for college savings account contributions reduced revenue by $14.7 million in FY16 and the exclusion for account earnings reduced revenue by $11.6 million in FY16. If the contributions to the long-term care investment accounts were similar to college savings account, that component of the fiscal estimate would be similar. The exclusion for account earnings would be significantly smaller initially for the long-term care accounts because account earnings are based on the accumulated account balance over time and many college savings accounts have many years of accumulation.

As a further reference, the state of Nebraska offers tax-preferred long-term care savings plans and educational savings plans. (Note: the Nebraska long-term care savings plan will terminate effective January 1, 2018.) As of December 2011, five years after it was created, there were 415 long-term care savings accounts with $605,893 total dollars on deposit. This compared to approximately 197,000 families with $2.8 billion invested in Nebraska's educational savings plan.

Wisconsin differs from Nebraska with respect to population and the effective individual income tax rate. Wisconsin had about 3.16 times as many individual income tax filers in 2015 as Nebraska did, suggesting a population adjusted number of long-term care investment accounts at 1,311 for Wisconsin. If each account had deposits of $5,500, the total annual deposits would be about $7.2 million. Applying an average effective tax rate of 5%, the deposits would reduce revenue by approximately $360,000 annually. This amount would be larger or smaller to the extent that aggregate deposits are larger or smaller. In the long-term, the exclusion for account earnings would also produce a revenue reduction based on the accumulated account balance and the investment rate of return.

Long-Range Fiscal Implications

Wisconsin Department of Administration
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Fiscal Estimate Worksheet - 2017 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

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Description
long-term care investment accounts and making appropriations

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$**	**$**
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$See Text	$

Agency/Prepared By	**Authorized Signature**	**Date**
DOR/ Bradley Caruth (608) 261-8984	Jamie Adams (608) 266-6785	11/6/2017