

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 676 **DATE:** March 8, 2001
Version: As Introduced
Authors: Wenzel and others
Subject: Income tax subtraction for medical expenses
Analyst: Nina Manzi, 651-296-5204 Joel Michael, 651-296-5057

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Overview

Allows a income tax subtraction for medical expenses not deducted at the federal level or used to claim the state long-term care insurance credit.

Background Information. For tax year 2001, federal law allows self-employed individuals to deduct 60 percent of health insurance premiums in calculating federal adjusted gross income. (This percentage increases to 70 percent in 2002 and 100 percent in 2003.) Taxpayers who claim itemized deductions may deduct medical expenses, including the balance of self-employed health insurance premiums, to the extent the total exceeds 7.5 percent of the taxpayer's adjusted gross income. Deductible expenses include health insurance premiums, medical and dental care, prescription drugs, necessary transportation, and medical aids such as eyeglasses, hearing aids, crutches, and wheelchairs. These same expenses (without regard to the "floor" of adjusted gross income) would qualify for the subtraction proposed in H.F. 676. An estimated 82,500 Minnesota taxpayers claimed this deduction in 1999, as reported in the *Tax Expenditure Budget*.

Current Minnesota law allows the self-employed to subtract health insurance premiums that were not subtracted or claimed as an itemized deduction at the federal level. Minnesota also allows a nonrefundable credit equal to 25% of long-term care insurance premiums, up to a maximum of \$100.

Section

- 1 **Subtraction for medical expenses.** Allows a subtraction for medical care expenses. This expands the current subtraction for health insurance premiums for self-employed taxpayers to all medical care expenses for all taxpayers. Defines medical care expenses as expenses that qualify for the federal itemized deduction. The subtraction is reduced by:
 - the amount of medical expenses that are deducted in determining federal taxable income;

the amount of health insurance premiums claimed by self-employed taxpayers as a deduction in determining federal taxable income; and
the amount of premiums used to claim the long-term care insurance credit in Minnesota.