

**BILL #** HB 2318

**TITLE:** tax credit; dependents; Alzheimer's disease

**SPONSOR:** Stump

**STATUS:** As Introduced

**PREPARED BY:** Art Smith

## FISCAL ANALYSIS

### Description

The bill provides a tax credit for taxpayers who provide home based caregiver services to qualified dependents with Alzheimer's disease, effective January 1, 2009. The tax credit would amount to 25% of the cost of home based caregiver services up to \$2,000 per taxpayer. The bill also prevents individuals who take this tax credit to claim a tax exemption for being blind. The amount of the unused credit may be carried forward 5 consecutive years and used as an income tax credit in subsequent years.

### Estimated Impact

The bill is estimated to reduce individual income tax General Fund revenues from \$(37,625,000) to \$(129,000,000) starting in FY 2010. This amount may be reduced if a household's tax liability is less than the value of the credit. A household, however, can take the credit over a 5 year period of time.

### Analysis

According to the Desert Southwest Chapter of the Alzheimer's Association, approximately 86,000 individuals in Arizona have Alzheimer's disease, 64,500 of which are still at home. Of those 64,500 still at home, the Alzheimer's Association estimates that 21,500 receive home-based caregiver services, either by the taxpayer or hired help. Home-based caregiver services are all non-medical expenses incurred including food, incontinence pads, bathing, hiring caregiver services, or any other type of personal care.

The bill provides a tax credit amounting to 25% of the costs of non-medical care up to \$2,000 per year. According to the Alzheimer's Association, the costs for providing non-medical care for those who qualify for this tax credit range from \$7,000 to \$20,000. Costs generally increase from the low end of the range to the high end as the patient moves into the latter stages of the disease. The average cost is unknown. Given the \$2,000 cap, a taxpayer will only be reimbursed up to \$8,000 in expenses (25% of \$8,000 = \$2,000). Assuming that all individuals who provide home-based caregiver services use the tax credit, the expense to the state would range from \$37,625,000 to \$43,000,000.

The bill does not define home based caregiver services. As a result, all 64,500 taxpayers with dependents at home with Alzheimer's disease could claim the tax credit. This could potentially increase the estimated expense range to \$129,000,000 (64,500 home-based individuals x \$20,000).

Current statute allows a tax exemption for blind individuals; however, the bill would require taxpayers who also qualify for the Alzheimer's tax credit to choose either the tax credit or the tax exemption, but not both. This provision could change the estimate if a large number of individuals who qualified for both the credit and the exemption chose to take the exemption. The exemption is for \$1,500 and individuals would usually benefit more by taking the tax credit rather than the exemption. The exact number of individuals who qualify for both is unknown, but likely would not dramatically affect the estimate.

Arizona Long Term Care System Costs (ALTCS) states that the bill is unlikely to affect costs for the program. In FY 2008, the gross rate for home-based services amounts to \$18,420 annually in ALTCS. The tax exemption may not provide very much incentive for taxpayers to withdraw their family members from ALTCS, which would result in the taxpayer having to take on additional expenses with a net cost of over \$16,000 per year. The cost of care paid directly to ALTCS is significantly less than the amount that would be paid for services outside of ALTCS. Conversely, taxpayers who are initially able to afford the higher costs of care may find the tax exemption more appealing, and thus, may choose to retain home-based outside of ALTCS.

**Local Government Impact**

Each year, incorporated cities and towns receive 15% of income tax collections from 2 years prior. This bill would reduce local government distributions from \$(5,643,800) to \$(19,350,000) beginning in FY 2012.

None

1/31/08