

TAXBILLSERVICE

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SUBJECT: INCOME, Small business long-term care insurance premium tax credit

BILL NUMBER: HB 2778, HD-2

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers who own a small business to claim a small business long-term insurance premium credit of the lesser of \$500 per employee or 50% of the premiums paid for each employee. Credits in excess of a taxpayer's income tax liability may be applied to subsequent liability. Defines "small business" as a for-profit enterprise consisting of fewer than one hundred full-time or part-time employees.

Stipulates that the tax credit when claimed by: (1) either an individual resident taxpayer or a husband and wife filing a joint return that own a small business, provided that a resident husband and wife filing separate tax returns for a taxable year for which a joint return could have been filed by them, shall claim only the tax credit to which they would have been entitled under this section had a joint return been filed; or (2) a small business that is a corporation, partnership, limited liability company, or other form of business entity, may be claimed only once in the taxable year with respect to the small business.

Claims for the credit must be filed within twelve months of the close of the taxable year or be waived if not filed on time. Requires the director of taxation to prepare the necessary forms to claim and validate a claim for the credit.

EFFECTIVE DATE: July 1, 2020

STAFF COMMENTS: This measure provides an incentive in the form of an income tax credit to encourage employers to purchase long-term care insurance premiums for their employees by allowing the employer to claim a credit for a portion of the premium costs for such insurance. While the credit may seem minimal, buying a group coverage for the minimal level of coverage would open the door of awareness for more employees of the need for this type of care in the future. Accessing this type of insurance will not only increase awareness of this need, but may allow employees to trade up by paying an additional premium, then this may be a way that the state addresses the challenge of long-term care.

That said, one has to question whether or not taxpayers should subsidize the cost of such insurance without any indication of need on behalf of the small business for financial assistance. Perhaps the sponsors of the bill envision that this would encourage mom and pop stores to secure this coverage or perhaps a lunch wagon owner. However, the bill defines a small business as one that has less than 100 full-time employees. That definition could fit a brokerage firm, a software developer, or a private physician's office. If the intent is to make the public aware of the need to secure this type of insurance, then there are means for informing and educating the public. One of the chief reasons for consumer reticence in this area is the fear of the unknown, that is not knowing anything about the options from which they can choose.

Digested 3/10/08

Senate Committee on Human Services & Public Housing
Senator Suzanne Chun Oakland, Chair

Date of Hearing: March 13, 2008

Time: 1:15 PM

RE: HB 2778, HD 2 – Relating to Tax Credits

Chair Chun Oakland and members of the Committee, NAIFA (National Association of Insurance and Financial Advisors) Hawaii, an organization made up of insurance and financial advisors across Hawaii, **supports HB 2778, HD 2**, in providing Hawaii employers with fewer than 100 full or part time employees and small business owners with an incentive to purchase LTC (long term care) insurance.

The tax credit proposed will be the lesser of \$500 for each employee or 50% of the insurance premium for each employee. Employers will be able to insure employees at a base level and in turn, the employees will be able to purchase added coverage. We believe that this incentive is integral to get the “ball rolling” and the bulk of the LTC premium will be borne by employees.

Employers, if they are paying LTC premiums as a benefit to their employees, can also deduct the entire LTC insurance premium expense on their corporate tax return. This measure can provide a very worthwhile incentive to employers to encourage them to make this benefit available since most employee benefits (health insurance, TDI, disability income, retirement, Social Security, Medicare, etc.) are delivered at the workplace. Employers can provide one of the best venues in educating our citizens about their future LTC needs.

Additionally, there are numerous benefits for a group purchase of LTC insurance:

- Group LTC insurance policies are approximately 10% to 40% less than individual LTC policies subject to underwriting requirements (age, health, etc.).
- Premiums are level, based on age purchased, which encourages younger employees to participate. Employees receive guaranteed issue coverage (no medical questions) up to certain limits.
- Employees can customize the coverage beyond the employer paid base plan, at highly discounted rates. Employees can add to their coverage at anytime.
- Employee’s **entire extended family** (parents, grandparents, in-laws, siblings, adult children) can participate in the discounted group rates.

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- Employees can take their coverage with them should they retire or terminate their employment at same rate with the exact same coverage and extended family members retain their coverage.
- Premiums are level, based on age purchased, which encourages younger employees to participate. Employees receive guaranteed issue coverage (no medical questions) up to certain limits.

Government's support of a tax incentive in encouraging individual responsibility for long term care financing is a step towards solving this complex issue. Our citizens will have these products to protect themselves against catastrophic long term care expenses. The expansion of this market will reduce Medicaid outlays and future costs to both the federal and state governments.

Yes, it is true that the older one gets, a LTC insurance policy becomes less affordable due to chronic ailments or unavailable due to sickness. A tax credit for employers and individuals will encourage the young to purchase their LTC insurance when they are healthy and rates are most affordable.

Medicaid began as a safety net for the less fortunate but over the past 30 years it has become a way for many families to keep their assets. The term "spending down" is well understood in qualifying for Medicaid. We believe that through the purchase of long term care insurance from the marketplace, we can save Medicaid for what it was truly intended. The burden on the state and federal government is enormous and continues to grow.

We urge your support for this measure. Mahalo for allowing us to share our viewpoint.

Cynthia Hayakawa
Executive Director

