

Long-Term Care Needs and the Government Response (Part 3 of 3) Part Three: Tax Policy Concerns

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When President Clinton proposed a tax credit for long-term care, he made little or no mention of traditional issues of tax policy. Here are a few of the questions that surely were raised by the Treasury Department regarding issues of administration, costs, equity, budget accounting, and tax simplicity when drafting the proposal.

Can a new credit be administered well by the IRS?

If the credit is confined to taxpayers with positive tax liability, then the IRS can administer the payment of the credit probably as well as any expenditure department. We have become used to taxpayers filing annual information on their returns, and so a small subsidy for long-term care expenses might be listed there as well as anywhere else.

One should distinguish, however, between the paying agency and the one in overall charge of a program. Although not a practice, there is no reason why a taxpayer can't apply for a credit from some department of government other than Treasury, and simply provide the necessary information on his or her tax return. That way the IRS could handle payments and be given authority to make an initial check on whether a claim was related to limits based on income reported. However, the full assessment and analysis of the credit program would then be left to the department concerned with long-term care.

How will the tax system deal with those who have insufficient income or tax liability to make use of the credit?

One significant difficulty arises if one wants to get the credit to individuals who have no tax liability. In that case the IRS likely will be a poor administrator, and some alternative apparatus for distributing the money is needed.

The IRS does administer one refundable credit, the earned income tax credit, but the value of that credit is based largely on an existing wage reporting system. No similar advantage exists in the case of a refundable long-term care credit to recommend that the IRS handle it.

What is the cost of adding yet one more program to the multiple systems of subsidy for long-term care?

If one receives a credit for long-term care expenses, the credit obviously should not and would not apply to expenses covered by Medicare or other government provided assistance. Coordination among agencies is required simply to make sure that there is not excess reimbursement from government. Such extra effort could be reduced or avoided if long-term care assistance were administered by a single agency, such as the Health Care Financing Administration (HCFA).

With more than one agency involved, some enforcement efforts inevitably duplicate. Take the case of expenses in a nursing home that for some reason should not qualify as long-term care (e.g., daily gourmet food). Now more than one agency is going to have to detect the problem and determine what can be done to deal with excessive claims. Similarly, if one applies for a long-term care tax credit, the IRS needs to know that the individual truly paid the cost and was not reimbursed through another source. Presumably, therefore, some information would have to be shared among agencies, although there are complications. For instance, under its privacy rules the IRS cannot share information that is reported correctly to it even if the reported information reveals some violation of a non-tax law.

Multiple audit and collection resources are required. For example, if Treasury reimbursed an individual

excessively, but HCFA has overreimbursed an institution, then they would follow different means of recourse. Assessment of the worth of the program itself may be the worst of the problems that arise from multi-layered administration. The IRS does almost no analysis of the many social programs it runs. Other government departments are reluctant to examine the value of tax credits. Indeed, they often fight to have them enacted or expanded since the costs don't show up in their own budgets. Such advocacy is especially prevalent in those departments that tend to operate as lobbying groups on behalf of their constituents.

Will taxpayers in equal circumstances be treated equally?

Some opponents of all tax expenditures argue that income is the sole measure of well-being in determining who should pay income tax. The case, however, is not pure: income less medical expenses could also be considered a reasonable measure of ability to pay—at least to the extent that medical expenses are involuntary.

A long-term care credit, however, treats long-term care differently from other medical expenses. In the latter case, a deduction is allowed for large expenses relative to adjusted gross income. The intertwining of a credit and a deduction—which already was available for excess long-term care costs along with other medical costs—is confusing and inconsistent. Also, it is not clear why long-term care medical expenses would be favored relative to other medical expenses paid out of pocket.

Will a new long-term care credit be handled appropriately in the budget?

Unfortunately, tax expenditures are not accounted for properly in the budget. They count as tax reductions rather than positive outlays. A direct expenditure performing exactly the same economic functions, by contrast, would show up as a higher expenditure. Thus, tax expenditures understate government involvement in the economy, especially when total expenditures and total taxes are used as crude measures of that activity.

Tax expenditures such as a long-term care credit are usually proposed as permanent features. In that sense, they are closer to the so-called entitlements on the expenditure side of the budget. Entitlements do not require annual appropriations, as do discretionary expenditures such as education, justice, environmental clean-up, community development, and defense. Therefore, a permanent long-term care credit has priority over many alternative uses of federal revenues.

What are the consequences for simplicity of tax filing?

Tax filing is already a mess and is becoming as complicated for the moderate income filer as it has been for the richest of filers. It is not simply that calculations must be made to determine the value of some long-term care credit, it is that millions of additional taxpayers must read about the credit. Some will undertake significant efforts to gain knowledge of the credit even though they will find out they are ineligible. For taxpayers in general, the tax return becomes cluttered a little bit more.

The availability of the credit will affect tax planning. For instance, could be worthwhile to bunch expenses or to delay payment so as to maximize the credit received. Finally, some people would probably need to make two calculations—one using the credit, the other taking into account the deduction already allowed for excess medical care expenditures—in preparing their return.

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