Tax Relief, or Lack Thereof, for the Long-Term Care Costs of the Aging Population in America

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ABSTRACT

As the health and longevity of Americans continues to improve, adult children caring for aging parents – possibly at the same time as raising children of their own – is becoming a national phenomenon. This paper examines current and proposed income tax relief for taxpayers who provide financial support for the long-term care of an adult individual (e.g., parent of taxpayer). Four specific tax relief options are evaluated: Dependency exemption, head of household filing status, medical itemized deduction, and dependent care credit. The current tax law is not structured to encompass the unprecedented issue of the long-term care costs of the aging population in the United States. In response, multiple options are introduced to advance the discussion of tax policy alternatives.
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INTRODUCTION

As the health and longevity of Americans continues to improve, adult children caring for aging parents – possibly at the same time as raising children of their own – is becoming a national phenomenon. It is so common, in fact, that people faced with the dual responsibility of aging parents and minor children have been dubbed the Sandwich Generation.\(^1\) Baby boomers are beginning to retire which increases the significance of tax provisions, or lack thereof, geared toward providing financial relief for people saddled with the responsibility of the long-term care of older individuals. This responsibility may be somewhat unexpected by the average American taxpayer. Most people aged 40 to 50 years probably do not predict or plan for the responsibility of aging parents. With advances in medicine, this responsibility could last for many years. Furthermore, the onset of required intervention – due to mental or physical incapacity – may arrive unexpectedly. One fall off of a curb or medical diagnosis can change the playing-field instantly. The current income tax law of the United States has no specific provisions geared toward providing relief to taxpayers who bear the financial responsibility for the long-term care of adult individuals.

As shown in Table 1, the population of elderly people in the United States is exploding. Based on Census data the estimated population of individuals over 85 years of age is seven times higher than the related estimate for the year 1950. In addition, baby boomers, defined as people born between 1946 and 1964, started turning 62 in 2008 and are now eligible for Social

\(^1\)An extension of the Sandwich Generation is the Club Sandwich Generation defined as: (1) People typically aged 50 to 60, sandwiched between aging parents, adult children and grandchildren; (2) People typically aged 30 to 40 with young children, parents and grandparents. Source: Abaya, C. 2007. Available at: www.sandwichgeneration.com.
In the meantime, estimated life expectancy, as shown in Table 2, has increased from 68.2 years (1950) to 77.0 years (2000). It seems that the adoption of healthier lifestyles and advances in the medical industry have contributed to the increase in longevity. The good news is that our loved ones are living longer. From a financial standpoint, however, the news is not so positive. Social Security benefits no longer provide the financial comfort and security that they once did. In addition, personal savings rates have reached a historic low. Diminishing resources are coupled with the reality that the costs of growing older are greater than they used to be. For instance, health care costs have increased while medical health care benefits have decreased.

There are provisions in the tax law that provide some relief to older taxpayers. For instance, taxpayers over 65 years of age are entitled to an additional standard deduction. However, taxpayers who are providing financial support to older individuals have very little opportunity for tax relief. One reason there should be tax relief is based on equity. Consider a taxpayer who financially supports a child versus an adult individual. Tax relief options for the financial support of a child are more generous, in terms of the number and type of options, than those relating to an adult individual. Yet, both obligations are similar in that the costs are personal in nature. Furthermore, there is generally an implied element of choice regarding the financial support of a child. The purpose of this paper is to examine the current and proposed tax

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3 The concept of equity underlying the income tax system in the United States is defined in relation to person’s ability to pay income tax. Specifically, horizontal equity means that people with similar ability to pay taxes should pay similar amounts.
treatment for taxpayers who provide support for older individuals and to introduce various options to advance the discussion of tax policy alternatives.

**ESTIMATED COSTS OF LONG-TERM CARE**

**Occasional (Hourly) Assistance**

Due to the increases in population and longevity, Americans are increasingly faced with planning for long-term care. In fact, the American Association of Homes and Services for the Aging report that 69 percent of people aged 65 today will need long-term care. Long-term care requirements may progress gradually or commence suddenly. A gradual progression may begin with the need for occasional assistance followed by the need for daily care and ultimately result in the need for live-in assistance. Occasional assistance may include support services for everyday tasks that allow older Americans to maintain their independence, perhaps to enable them to remain in their own homes. For instance, older Americans may need help with cleaning, shopping and managing the medical aspects (e.g., medication, billing and insurance) of their lives. The cost of occasional assistance can vary dramatically depending on the type of service. Providing basic medical assistance can range from $19 for non-certified to $38 for Medicare-certified providers. One might think the medical aspect of the services commands a premium, which appears to be the case regarding the increased cost of Medicare-certified providers. However, at an hourly rate of $18, homemaker (non-medical) services cost almost as much as non-certified medical assistance. Thus, the annual cost of service for one hour a day, five days

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6 Ibid.
a week can range from $4,680 to $9,880 depending on the qualifications of the home care provider.

**Adult Daycare**

The decision to enroll in an adult day care center may be based on medical, safety or even social reasons. According to the National Adult Day Services Association, 35 percent of adult day care center participants live with an adult child and the average cost of care is approximately $61 per day.\(^7\) Thus, full-time (i.e., 40 hours per week) care for adult day services is estimated to exceed $15,000 per year. According to the National Association of Child Care Resource and Referral Agencies, the most expensive child care cost is that of infant care at daycare centers. The average annual cost of full-time infant care at daycare centers is $8,469 which is substantially lower than the estimated annual cost associated with adult day care services.\(^8\)

**Live-in Facilities**

As shown in Table 3, the estimated cost of care for live-in facilities is substantial.\(^9\) The average daily rate of accommodations for a one bedroom assisted living center is $99 which is not tremendously higher than the daily rate for an adult daycare, especially considering the assisted living center is a “live-in” facility. However, the annual amount is estimated to be more than double that of the adult day care because the assisted living provides 24-hour care, seven days a week. The average annual cost of a semi-private room in a nursing home is estimated to cost $68,408 and a private room is $76,460. Furthermore, these costs are increasing rapidly. From 2004 to 2008 the estimated costs of live-in care increased as follows: assisted living 25

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\(^7\) National Adult Day Services Association (NADSA). 2008. Adult day services: overview and facts. Available at: www.nadsa.org. A similar rate of $58 per day is reported by Genworth Financial (Note 5 supra Genworth Financial 2008). Also, AAHSA reported estimated costs of home care assistants and live-in facilities. The amounts reported by AAHSA were equal to or nominally different from those reported in this paper (Note 4 supra AAHSA 2008).


\(^9\) Note 5 supra Genworth Financial 2008.
percent; semi-private room nursing home 19 percent; and private room nursing home 17 percent. In terms of dollars, the annual cost of a room (private or semi-private) in a nursing home in 2008 is $10,000 more than it was just five years ago.

--- Insert Table 3 ---

**Out-of Pocket Costs of Care**

The estimated costs reported above do not reflect out-of-pocket costs. Adult taxpayers may have private medical insurance, long-term care insurance or be covered by Medicare and/or Medicaid. Briefly, Medicare is a public health insurance program for adult individuals over the age of 65 or under 65 with certain disabilities. Medicare has three parts: A, B and D. Part A, hospital insurance, helps cover inpatient hospital care. Part A does not cover custodial or long-term care facilities. However, it may cover the expenses of a skilled nursing facility if the care is an extension of inpatient hospital care. Part B, medical insurance, helps cover doctor and outpatient care expenses. Finally, Part D, prescription drug coverage, helps to defray the costs of prescription medicine. Medicaid helps cover the health care costs of low income individuals who fit into an eligibility group recognized by federal and state law.

Estimates of the sources of long-term financing of aging adults vary. Consistent among the estimates reviewed, the three primary sources of long-term care funding are Medicaid, Medicare and out-of-pocket financing, with Medicaid covering the highest percentage of costs. As an example, Figure 1 presents an estimate of long-term elderly care financing as reported by the Congressional Budget Office of the United States. Of primary concern regarding taxpayer

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11 Ibid.
relief for medical expenses paid on behalf of an adult / aging individual is the estimates of out-of-pocket costs of long-term care. As shown in Figure 1, the Congressional Budget Office estimated out-of-pocket costs to account for approximately one-third of long-term care spending. Of the studies reviewed, estimates of out-of-pocket expenses ranged from 18 percent to 40 percent of total long-term care spending.¹³

-- Insert Figure 1 --

CURRENT INCOME TAX RELIEF

Current income tax options for potential tax relief for taxpayers supporting adult individuals include: Dependency exemption, head of household filing status, medical itemized deduction and dependent care credit.¹⁴ In the following discussion, the taxpayer is defined as the individual who is providing financial support for an adult individual. The most common example of an adult individual is the (aging) parent of the taxpayer.

Dependency Exemption

Requirements for Benefit

A taxpayer may claim a dependency exemption if an adult individual is a “qualified relative” of the taxpayer. Five tests must be satisfied for the adult individual to be considered a qualified relative (i.e. dependent) of the taxpayer: relationship, gross income, support, dependency and citizenship.¹⁵

(1) Relationship or Member of the Household. The relationship test is satisfied if the adult individual is related to the taxpayer in either of the following ways: (a) The adult individual is related to the taxpayer in either of the following ways: (a) The adult individual is...

¹³ Note 12 supra Feder, et al. 2007 and Note 4 supra AAHSA 2008, respectively.
¹⁴ The guidance provided regarding the current tax law is limited to that which might be relevant to a taxpayer who bears some/all financial responsibility for an adult individual. The most common example is an adult child responsible for an aging parent.
¹⁵ I.R.C. §152(d)(1) and I.R.C. §152(b). See IRS Publication 501 for compliance guidelines regarding the personal and dependency exemption.
the parent or ancestor of the parent (i.e., grandparent of the taxpayer); or (b) The adult individual is a sibling of the taxpayer’s parents (i.e., aunt or uncle of taxpayer). The reference to parent in options (a) and (b) includes parents-in-law and step-parents. If the adult individual is unrelated to the taxpayer, this requirement may still be satisfied if the individual is a member of the taxpayer’s household for the entire tax year.

(2) Gross Income. The adult individual’s gross income must be less than the exemption amount for the tax year (i.e., $3,500 in 2008). Income excludable from the individual’s gross income (e.g., exempt interest, disability or social security) is disregarded.

(3) Support. The taxpayer must provide more than one-half of the adult individual’s support. Income excludable from the adult individual’s gross income is taken into account, to the extent that it was used, when evaluating the support requirement. If multiple taxpayers (e.g., siblings) provide support for a parent, but no one taxpayer provides greater than one-half of the individual’s support, a signed Multiple Support Agreement may allow one taxpayer to satisfy the support test.¹⁶

(4) Joint Return. An adult individual who files a joint income tax return generally cannot be claimed as a dependent of the taxpayer. An exception to this requirement is that a joint return can be filed by the adult individual if such return is filed to obtain a tax refund and neither person filing the joint return would have any tax liability if they had filed separately.¹⁷

(5) Citizen or Resident. The adult individual must be a citizen, national or resident of the United States or a contiguous country.

**Amount of Potential Benefit**

For 2008, the amount of the personal and dependency exemption is $3,500.

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¹⁶ I.R.C. §152(d)(3).
¹⁷ It is possible for the taxpayer to claim a dependency exemption for each parent filing a joint return if all tests for dependency are met regarding each parent individually.
Discussion

The most common reasons that a dependency exemption is disallowed are the failure of the gross income test (i.e., gross income of adult individual is greater than personal exemption amount) and/or the joint return test (i.e., filing status of the adult individual is married filing jointly). Moreover, a qualified dependency exemption reduces taxable income. Thus, the after-tax benefit of an exemption claimed is based on the marginal tax rate (MTR) of the taxpayer claiming the exemption. For example, based on the 2008 individual income tax rate schedule (married filing jointly status), the MTR of a taxpayer with taxable income of $25,000 is 15 percent, which results in an after-tax benefit of $525 for each exemption claimed. In comparison, the MTR of a taxpayer with taxable income of $100,000 is 25 percent, which results in an after-tax benefit of $875 for each exemption claimed. Moreover, exemption amounts may be reduced or eliminated for higher-income taxpayers. However, the phase-outs affect taxpayers with fairly high levels of adjusted gross income (AGI). For example, the 2008 AGI phase-out range for a taxpayer whose filing status is married filing jointly is $239,950 to $362,450. Finally, an individual may only be claimed as a dependent on one income tax return. For instance, a parent can only be claimed by a taxpayer if such parent is not claimed as a dependent on another income tax return, including the parent’s own income tax return.

Taxpayer Filing Status - Head of Household

Requirements for Benefit

If an adult individual is a qualified dependent and the taxpayer is unmarried, the head of household filing status is generally allowed. To qualify for the head of household filing status, the taxpayer must be unmarried and pay greater than one-half of the cost of home maintenance
on behalf of the adult individual. In general, the adult individual must live in the home with the taxpayer for more than one-half of the tax year. However, if the qualified dependent is the taxpayer’s parent, then the parent does not have to physically live in the taxpayer’s home. Instead, the taxpayer must pay more than one-half of the cost of maintaining the home in which the parent resides. The parental residence may include elderly or adult care facilities.

**Amount of Potential Benefit**

The head of household filing status provides an unmarried taxpayer with greater benefits, such as a larger standard deduction. In 2008, the standard deduction for an unmarried single taxpayer is $5,450 and the standard deduction for head of household is $8,000. Another difference between the single and head of household filing status is that the tax rate schedule for single status is more progressive (i.e., tax rates increase at a faster rate). For example, in 2008 the tax liability for taxable income of $50,000 and $100,000 is $8,844 and $21,978, respectively, for a single taxpayer. In comparison, the tax liability is $7,563 and $20,062, respectively, for taxpayer who qualifies as head of household.

**Discussion**

The head of household filing status requires that the adult individual be a qualified dependent (discussed above) of the taxpayer. Like the dependency exemption, the after-tax benefit of the increased standard deduction due to head of household filing status is based on the MTR of the taxpayer claiming the exemption. If the taxpayer itemizes deductions, the amount of the standard deduction is irrelevant. Finally, the head of household filing status can only be claimed by an unmarried taxpayer.

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18 I.R.C. §2(b). See IRS Publication 501 for compliance guidelines regarding taxpayer filing status. Head of household filing status is not allowed if a Multiple Support Agreement was used to satisfy the dependency exemption requirement for support(I.R.C. §2(b)(3)(B)(ii). The head of household filing status requires that the qualifying relative bear a familial relationship to the taxpayer (IRS Ltr. Rul. 2008-12-024 (February 08, 2008)).

Medical Expense Deduction

Requirements for Benefit

Taxpayers may be allowed to claim an itemized deduction for unreimbursed medical expenses paid on behalf of another individual.\(^{20}\) Typical medical expenses include physician fees, hospital fees, prescription medicine and insurance premiums as well the actual cost or standard mileage rate of 19 cents per mile from January 1 through June 30, 2008\(^{21}\) and 27 cents per mile from July 1 through December 31, 2008.\(^{22}\) Expenses paid on behalf of a qualified dependent are allowed. As discussed above, five tests must be satisfied for a taxpayer to claim a dependency exemption on behalf of an adult individual. However, a taxpayer may be allowed to claim the medical expenses paid on behalf of an adult individual even if adult individual fails two of the tests. Specifically, the adult individual can have gross income greater than the exemption amount ($3,500 for 2008) and/or file a (married filing) joint income tax return.

Amount of Potential Benefit

The deduction is limited to the amount of all unreimbursed medical expenses paid by the taxpayer in excess of 7.5 percent of the taxpayer’s AGI.\(^{23}\)

Discussion

There are two primary tax rules that prevent taxpayers from deducting medical expenses paid on behalf of another individual. The first is that the taxpayer must itemize deductions. According to IRS Statistics of Income (SOI) data, 36 percent of all income tax returns filed in


\(^{23}\) Medical expenses can still be claimed if a Multiple Support Agreement was used to satisfy the dependency exemption requirement for support.
2005 reported itemized deductions.\textsuperscript{24} As shown in Table 4, the percentage of tax return filers who reported itemized deductions is evaluated at three level of income. The first level of income, AGI of $40,000 to $50,000, is included as an example of a typical middle class taxpayer.\textsuperscript{25} The second level, $75,000 to $100,000, is included as an example of upper middle class. Finally, AGI of $100,000 to $200,000 is included to model a high income taxpayer.\textsuperscript{26} The percentage of taxpayers who reported itemized deductions was 42.6 percent for taxpayers with AGI of $40,000 to $50,000; 76.2 percent for taxpayers with AGI of $75,000 to $100,000; and 89.6 percent for taxpayers with AGI of $100,000 to $200,000.\textsuperscript{27} As expected, the percentage of taxpayers reporting itemized deductions increases with AGI. Notably, less than one-half of taxpayers with AGI between $40,000 and $50,000 itemized deductions. In fact, SOI data reported a percentage that was substantially less than 43.6 percent for all AGI categories below $40,000 to $50,000, and a percentage that was more than 89.6 percent for all AGI categories above $100,000 to $200,000. Thus, the majority of lower and middle class taxpayers do not have the opportunity to deduct medical expenses paid on behalf of an adult individual.

\[\text{-- Insert Table 4 --}\]

Second, due to the 7.5 percent threshold, the amounts paid must be fairly substantial in relation to the taxpayer’s AGI. The average total medical expenses as well as the average amount of the medical deduction are shown by AGI level in Table 4. The average total medical

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\begin{footnotes}
2005 data is utilized because it is the most recent data published by the IRS. The specific SOI data file used was Table 1.4.
Currently, the classification is set at AGI greater than $200,000. Note 24 supra IRS 2008b.
\item[27] Note 24 supra IRS 2008b.
\end{footnotes}
expense amount is somewhat misleading since it is the average expense reported by taxpayers who claim a medical deduction. It does not include the medical expenses of taxpayers who do not claim a medical deduction. The primary reason that taxpayers do not claim a deduction for medical expense paid is presumably because the amount of the expense is not greater than 7.5 percent of taxpayer AGI. As shown in Table, 4, very few taxpayers claim a medical deduction. As expected, taxpayers at lower levels of income are more likely to claim the deduction because their AGI is lower; thus reducing the threshold (7.5 percent of AGI) of which they have to exceed to utilize the deduction. Counterintuitive to that argument is the fact that lower income taxpayers are less likely to itemize their deductions. However, taxpayers at lower levels of income may be less likely to have medical insurance which increases their unreimbursed (i.e., out-of-pocket) medical costs. In any case, only 12.4 percent of the taxpayers at the lower level of income receive some relief for medical expenses paid. Furthermore, a greater proportion of lower AGI taxpayers’ income is spent on medical expenditures. That is, the amount of the deduction as a percentage of AGI is highest for taxpayers at the lower level of income. Using the mean of each AGI level as a denominator, the average medical deduction as a percentage of AGI is: 11.9 percent, 7.7 percent and 6.8 percent (shown from lower AGI to higher AGI). Unless taxpayers have substantial medical expenses (to exceed 7.5 percent AGI threshold), the potential for taxpayers to get tax relief for medical expenses paid on behalf of an adult individual appears to be minimal.

Finally, similar to the dependency exemption provision demonstrated above, any allowable medical expense deduction reduces taxable income. Thus, the after-tax benefit of medical expenses claimed is based on the MTR of the taxpayer claiming the exemption.
Medical Deduction Example: Long-Term Care

In general, the costs of occasional assistance, adult daycare and assisted living facility are not considered medical expenses. Only the costs that are specifically medical in nature (professional medical care, prescription medicine, etc.) qualify as a medical itemized deduction. However, in regard to nursing home care, if the primary purpose for nursing home care is medical, then all of the costs (including meals and lodging) qualify as medical expenses. Finally, the medical portion of advance payments for lifetime care (e.g., nursing home) can generally be included as a medical expense when paid.

Tax relief for medical care expense is variable. For that reason, potential tax relief of the medical expense paid on behalf of an adult individual is estimated at three levels of taxpayer AGI.28 As shown in Table 5, each estimate is broken down into five steps: Medical expense itemized deduction; taxable income; tax relief of medical deduction; after-tax cash outflow of total medical expense; and after-tax cash outflow of additional medical expense. All three AGI level examples assume: Tax year 2008; AGI is mean of each level (e.g., for the $40,000 to $50,000 level, AGI is $45,000, etc.); filing status is married filing jointly with two dependents before the additional medical costs of the adult individual; The adult individual does not qualify as a dependent, but the medical costs paid by the taxpayer qualify as an itemized medical expense of the taxpayer.

-- Insert Table 5 --

Medical Example Calculation

Step 1 begins with the total (original) medical expense, by AGI level; according to SOI data (see Table 4).29 An estimate of additional medical expense paid by the taxpayer on behalf

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28 The levels are consistent with those utilized to present SOI data (see Table 3).
29 Note 24 supra IRS 2008b.
of an adult individual is then added. To increase the comparability across AGI levels, the additional amount is constant across all three levels of AGI. The amount is calculated by multiplying the annual cost of a semi-private room in a nursing home (see Table 3) by the percentage of long-term care financed out-of-pocket, estimated at 18 percent. The cost of a semi-private room was used because the cost of assisted living facilities generally do not qualify as a medical expense and the semi-private room produces a more conservative estimate of actual costs than a private room. Eighteen percent was used because it represents the lowest percentage estimate of out-of-pocket costs reported in the studies reviewed and is roughly one-half of the higher estimates. Conceivably, the taxpayer may be paying all or some portion of the costs.

Finally, the total medical expense calculated is reduced by the AGI threshold of 7.5 percent of AGI. For instance, in the $40,000 to $50,000 AGI category, the estimated total expense of $21,043 is reduced by 7.5 percent of AGI (i.e., AGI mean for category, $45,000 in this case) resulting in a medical itemized deduction of $17,668.

Step 2, the calculation of taxable income, is primarily used to determine the taxpayer’s MTR to be used in steps 3 and 5. Regarding the calculation of taxable income, the itemized deduction amount represents the average itemized deduction less the medical deduction by level of AGI, as reported by the SOI data (Table 4). The estimated itemized medical expense deduction, from step 1, then reduces taxable income. That is, the new estimate of medical expense, calculated in step 1, replaces the medical expense itemized deduction reported by SOI data to take into account the additional expense of an adult individual.

Step 3 presents the estimated tax relief of the medical costs paid by the taxpayer. The medical deduction, from step 1, is multiplied by the taxpayer’s MTR. Step 4 presents the after-tax cash outflow of the total medical expense by reducing the total out-of-pocket medical
expenses by the tax relief calculated in step 3. Finally, step 5 presents the after-tax cash outflow of the additional medical expense paid by the taxpayer on behalf of an adult individual.

**Medical Example Insights**

The medical example provides insight into the structure and tax relief of the medical expense itemized deduction. The medical itemized deduction, calculated in step 1, increases with AGI levels primarily due to the fact that the original medical expense amount is higher at higher levels of AGI. However, the medical itemized deduction as a percentage of total medical expense decreases with AGI level. This result is a ramification of the structure of the tax law. The AGI threshold is surpassed at lower levels of medical expenses for lower income taxpayers. This result is consistent with the concept of vertical equity in that the larger benefit, in this case the percentage of deductible medical expense, is bestowed upon the lower income taxpayer.

Tax relief in the form of a medical expense itemized deduction reduces taxable income. Thus, the after-tax benefit of such relief is contingent upon the taxpayer’s MTR. As shown in step 3, the benefit for medical expenses are less valuable at lower income levels due to taxpayer’s respective MTRs. The lowest level taxpayer ($40,000 – 50,000 AGI) has deductible medical expenses of $17,668 and a MTR of 10 percent resulting in tax relief of $1,767. The highest AGI taxpayer ($100,000 – 200,000 AGI) has deductible medical expenses of $20,587 and a MTR of 25 percent resulting in tax relief of $5,147. The total medical expense (from step 1) of the lower income taxpayer is approximately two-thirds (66 percent) of the total medical expense of the higher income taxpayer. Yet, the tax relief of the lower income taxpayer (i.e., $1,767 is approximately one-third (34 percent) of the tax relief of the higher income taxpayer (i.e., $5,147).
As shown in step 4, the medical expense across taxpayer income levels results in an after-tax cash outflow that is lowest for the lowest income taxpayer. This result appears to support vertical equity, but is actually a ramification of the fact that taxpayers at the lower level of income have less original medical expense before the additional expense was added (step 1). A more poignant result is presented in step 5 which shows that the after-tax cash outflow of the additional expense is inversely related to the level of AGI. This outcome is directly related to taxpayer’s MTR since the original medical expense amount reported by the SOI data (Table 4) exceeds the AGI threshold for all AGI levels (step 1). The tax relief of additional medical expense (i.e., $12,313 in this example) paid on behalf of an adult individual is the additional medical expense times the relevant MTR (step 3). Furthermore, the percentage applied (step 1) to calculate the additional medical expense, in this example 18 percent, is irrelevant to the regressive structure of the tax law. The structure of the deduction benefits taxpayers at higher levels of income more than taxpayers at lower levels. If the structure of tax policy is to display vertical equity, then this finding is in opposition to the underlying concept of fairness in the tax system.

To increase the validity of the example presented above, SOI medical expense data was utilized. However, the medical deduction amounts reported by the SOI data are limited in that the data relates only to taxpayers who claim a medical deduction. As shown in Table 4, the percentage of taxpayers claiming a medical deduction is very low, presumably because the taxpayers take the standard deduction (i.e., do not report itemized deductions) or they do not have medical expenses in excess of the threshold (7.5 percent of AGI). The limitation of using the SOI data is that the regressivity of the tax system exemplified above may be exacerbated by the SOI medical expense amounts (step 1) because it is greater than the AGI threshold.
Therefore, the model was re-estimated with a static original medical amount of $1,000 to $10,000 (in $1,000 increments) in place of the SOI medical expense amounts. The static original medical amount was then added to the additional expense of $12,313. Since the medical expense amounts are consistent across all AGI levels, the tax relief calculated in step 3 provides the most insight. When the model is run with $1,000 to $4,000 of original medical expense, the tax relief is greatest for taxpayers in the middle AGI category (i.e., AGI $87,500), followed by taxpayers at the lower AGI level and then the higher AGI level. However, a clear regressive pattern emerges at original medical expenses of $6,000. The tax relief at $6,000 or more original medical expense is positively and consistently related to AGI level. As the amount of the original medical costs increases, the regressivity of the system becomes more prominent.

**Dependent Care Credit**

*Requirements for Benefit*

Taxpayers may be allowed to claim a dependent care credit for amounts paid for the care of an individual who is physically or mentally incapable of self-care. The individual on whose behalf the expenses are paid must be a “qualifying individual” and the expenses must be “employment related” (i.e., enable taxpayer to be gainfully employed). An individual who is a qualified dependent (see above) of the taxpayer is automatically a qualifying individual for the dependent care credit. An individual who is not a qualified dependent because they failed the gross income test and/or filed a joint income tax return is considered to be a qualifying individual for purposes of the dependent care credit. Furthermore, the taxpayer’s dependent, including taxpayer’s spouse, is considered to be a qualifying individual, if the dependent is mentally or physically incapable of self-care and lived with the taxpayer for greater than one-half of the year.

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30 I.R.C. §21(b). See IRS Publication 503 for detailed compliance guidelines regarding child and dependent care expenses.

The application of this tax credit as it relates to taxpayers paying for the long-term care of adult individuals is particularly interesting:

Employment-related expenses...incurred for services outside the taxpayer’s household shall be taken into account only if incurred for the care of...a qualifying individual...who regularly spends at least 8 hours each day in the taxpayer’s household.\textsuperscript{32}

Thus, if the costs are incurred for services outside the taxpayer’s household (e.g., adult day care or assisted living), the adult individual must regularly spend at least eight hours a day in the taxpayer’s home or the expenses are not deemed to be employment related.

\textit{Amount of Potential Benefit}

The credit is based on the amount of qualified care expenses paid (base) and the rate dictated by the tax law. Specifically, the amount of qualified care expense (base) is the actual amount paid limited to the lesser of: (1) taxpayer’s earned income or (2) $3,000 for one qualified person and $6,000 for two or more qualified persons.\textsuperscript{33} As shown in Table 6, the maximum rate allowed is 35 percent. Thus, the maximum amount of the dependent care credit is $1,050 ($3,000 x 35 percent) for one qualified individual and $2,100 for two or more.

-- Insert Table 6 --

\textit{Discussion}

As shown in Table 6, the rate of the allowed credit is based on taxpayer AGI. The maximum rate of credit, 35 percent, is only available to taxpayers with AGI of $15,000 or less. Taxpayers with AGI of $15,000 who claim two dependents (e.g., self and spouse or self and qualified dependent) and take the standard deduction for any filing status will not receive the

\textsuperscript{32} I.R.C. §21(b)(2)(B)(ii).
\textsuperscript{33} I.R.C. §21(c). If the taxpayer filing status is married filing jointly, then the limit is the earned income of the lesser earning spouse.
maximum benefit of the credit (i.e., $1,050) because their tax liability will be much less than the credit and the credit is non-refundable (i.e. credit in excess of tax liability does not result in a tax refund). Furthermore, the rate is reduced one percent for every $2,000 incremental increase (above $15,000) of AGI. The AGI limit is not defined in regard to filing status. Therefore, all taxpayers with AGI greater than $43,000 are allowed a maximum rate of 20 percent which results in a credit of $600 for one qualified dependent or $1,200 for more than one qualified dependent. To summarize, the structure of the tax credit makes it almost impossible for taxpayers to receive the benefit of an accelerated (i.e., above 20 percent) rate of credit.

Unlike a deduction, the dependent care credit is a dollar for dollar reduction to the tax liability. However, the amount of the credit is miniscule in relation to the amount required to be paid by taxpayers for the care of an adult individual with physical or mental limitations. Under the current tax law, none of the cost of assisted living facilities or nursing home care paid on behalf of an adult individual will qualify for the dependent care credit because the adult individual generally would not spend at least eight hours a day in the taxpayer’s home. Therefore, the costs are not deemed to be employment-related. In addition, the motivation behind the dependent care credit is to encourage taxpayers to be employed. Thus, the taxpayer, both taxpayers if filing status is married filing jointly, must have earned income in order to claim the credit. It is conceivable that the taxpayer may have to attend to the adult individual which may reduce or eliminate the potential for the taxpayer to earn income. Furthermore, the

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34 Numerical example for 2008 single taxpayer with one dependent: AGI ($15,000) less two dependency exemptions ($7,000) less standard deduction ($5,450) equals taxable income ($2,550) times tax rate (10%) equals tax liability ($255). And, if earned income constitutes some/all of the AGI, the taxpayer would apply the earned income credit (which is refundable) before the dependent care credit. Finally, the standard deduction for married filing jointly and head of household filing status’ are greater than the standard deduction for single resulting in zero tax liability before the earned income or dependent care credit.

35 There are exceptions to the earned income rule. For instance, the current law allows taxpayers who are full-time students to claim the dependent care credit (I.R.C. §21(d)(2)). A similar extension is proposed by pending legislation whereby retired taxpayers may be deemed to be gainfully employed in terms of the dependent care credit (H.R. 5655).
dependent care credit is not a refundable credit (i.e., credit greater than tax liability does not result in a refund). Finally, the dependent care credit can only be claimed on behalf of two qualified individuals. Thus, a taxpayer who claims the credit for childcare costs of two children has no opportunity for relief regarding the long-term care costs paid on behalf of an adult individual.

**PENDING LEGISLATION: DEPENDENT CARE CREDIT**

As shown chronologically in Table 7, the first (2007) and second (2008) session of the 110th Congress has proposed several bills regarding the dependent care credit.

--- Insert Table 7 ---

**Increase in Amount**

The proposed legislation is outlined in Table 8 with similar and/or identical bills grouped together. Other than H.R. 1421 and S. 816, which propose adding stay-at-home parents (for children under age 7) to be deemed to have employment-related expenses, all of the legislation proposes an increase to the amount of the dependent care credit. As shown in column 4, some of the proposed legislation provides for an increase to the base (i.e., the maximum dependent care expenses) on which the dependent care credit percentage is applied. For example, H.R. 5655 proposes that for one (two or more) dependent(s) the current base of $3,000 ($6,000) of employment related expenditures be increased to $6,000 ($12,000). Furthermore, H.R. 5655 proposes that the base for a taxpayer with less than $30,000 AGI be increased to $9,000 ($18,000) for one (two or more) dependent(s). H.R. 4164 proposes the largest increase to the base: the current $3,000 ($6,000) base would be increased to $13,000 [(200 percent of the one dependent base, $26,000 ($13,000 x 200%)].

--- Insert Table 8 ---

---

36 These bills are identical: H.R. 1421 was introduced in the House of Representatives and S. 816 in the Senate.
A second method proposed for increasing the dependent care credit is to increase the applicable percentage and/or the AGI level to which the percentage applies (see Table 6). As shown in column 5, three proposals suggest that the threshold be increased from $15,000 to $75,000 which means taxpayers with AGI up to, and including, $75,000 would apply the maximum allowable percentage (i.e., 35 percent) to their allowable base of expenses. H.R. 2021 proposes both a base and AGI increase. Finally, flat applicable percentage rates are proposed as follows: H.R. 7237 proposes the percentage be 35% for all levels of AGI; H.R. 4039 proposes flat percentages at two levels of 40 percent (20 percent) for AGI less than (equal or greater than) $70,000; and, H.R. 1871 proposes the two level structure, but increases the AGI threshold to $100,000.

Expand Definition of Qualifying Individual

Four of the proposals (H.R. 6390, H.R. 2902, H.R. 1911, and S. 614) allow for taxpayers paying dependent care costs on behalf of parents to be eligible for the credit. These proposals specifically state that a qualifying individual will include the parent and grandparent of the taxpayer with no requirement for place of abode. That is, the parent is not required to live with or spend any specified amount of time in taxpayer’s home. H.R. 5655 also relaxes the qualifying individual rules by eliminating the requirement that a qualified individual is one that “regularly spends at least 8 hours each day in the taxpayer’s household.”

Refundable Credit

The dependent care credit is currently a non-refundable credit. That is, if the credit is larger than the taxpayer’s tax liability, the taxpayer is not eligible for a refund of the excess. Therefore, as shown in the example above, low income taxpayers could receive less than the full

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37 These bills are essentially identical with only the effective date differing: S. 614 and H.R. 1911 effective 12/31/2006 and H.R. 2902 effective 12/31/2007.
benefit, perhaps even no benefit, of the intended tax credit. Two of the proposed acts (H.R. 5655 and H.R. 4164) would make the dependent care credit a refundable credit.

**Congressional Intent of Dependent Care Credit**

Tax relief for child care expenses was originally granted in the form of an itemized deduction. In 1976, Congress enacted the Credit for Child Care Expenses which replaced the deduction with a nonrefundable income tax credit.\(^{38}\) The rationale for the change was that child care costs were a cost of earning income rather than a personal expense and deductions favor taxpayers in higher marginal tax brackets. A tax credit, on the other hand, provides relatively more benefit to taxpayers in lower brackets. Furthermore, a tax credit benefits taxpayers who take the standard deduction which also appears to be related to income levels (i.e., lower income taxpayers are less likely to report itemized deductions. Refer to Table 4).

**TAX RELIEF FOR LONG-TERM CARE COSTS**

Americans are faced with the novel issue of providing for the long-term care of an aging population. Tax policy should be considered to specifically address the issue. Multiple options are introduced in an attempt to advance the discussion of possible tax relief options.

**Dependent Care Credit**

In terms of relief for long-term care costs, the changes proposed by Congress to expand the definition of a qualified individual and increase the amount of the dependent care credit are the minimum steps necessary to address the problem. However, none of the proposed tax legislation provides relief to taxpayers who have maximized the use of the credit. The proposals do not address the situation whereby a taxpayer bears the financial responsibility of care for an

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\(^{38}\) PL 94-455. Tax Reform Act of 1976, Section 504 (10/04/76). Joint Committee Explanation.
adult individual and has utilized the credit for two children. To make the credit beneficial to all taxpayers paying for dependent care costs, the number of qualified individuals (currently maximized at two) should be unlimited. The Congressional intent underlying the dependent care credit is that dependent care is an employment, rather than a personal, expense. As such, what is the rationale for limiting the number of qualified dependents?

**Long-Term Care Credit**

Since its inception, and in particular as shown in the pending legislation, the original child care credit has been modified in an attempt to include the cost of non-child dependent care. With the predicted increase in the population of older individuals, perhaps it is time to re-think the coupling of child and dependent care – particularly in regard to taxpayers who bear the financial responsibility for adult individuals. An alternative to relaxing the definition of a qualifying individual for the dependent care credit is to disentangle child care from long-term dependent care.

From a financial standpoint, the cost of adult daycare, which is the least expensive form of long-term care for individuals who are physically or mentally incapable of self-care, is approximately double that of child care costs. Furthermore, a long-term care credit could be designed to provide specific relief for the novel issue of long-term care. For instance, the credit could be constructed to encompass multiple facets of long-term care, including the cost of care (adult daycare, nursing care, etc.) and medical care. Consistent with the Congressional intent underlying the change from a deduction to a credit in regard to child care expenses, replacing the medical itemized deduction (at least in terms of long-term medical care) with a credit would provide relatively more benefit to taxpayers at lower levels of income. In addition, it would

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39 The two dependents would probably be children. However, it is conceivable that the taxpayer may have more than one adult individual dependent.
eliminate the current regressivity of the tax structure underlying the medical expense deduction for long-term care costs.

An important aspect of providing a credit to taxpayers at the time of payment, whether in the form of the dependent care or long-term care credit, is that the credit offsets the costs of long-term care costs as they occur. In this manner, the credit provides immediate relief to taxpayers.

**Long-Term Care Insurance Credit**

The dependent care and/or long-term care credit provide tax relief after relevant expenses are paid. Alternatively, a credit for the purchase of long-term care insurance may incentivize taxpayers to plan for the financial aspects of long-term care for themselves and their loved ones. An advantage of addressing the issue before the fact is that it facilitates planning for long-term care costs rather than simply reacting to the costs as they occur. Furthermore, the cost of an insurance policy would be inversely related to age. Thus, encouraging purchases sooner, rather than later, has the added benefit of reducing taxpayer and government cost.40

All options introduced are in the form of a credit, rather than a deduction, because the value of a credit is inversely related to taxpayer income. Thus, a credit directs tax relief to taxpayers who need it the most – taxpayers at lower levels of income.

**CONCLUDING REMARKS**

The long-term care of our aging population is an unprecedented issue in the United States. The current tax law provides little, if any, relief to taxpayers who are saddled with the financial responsibility of caring for an aging parent. The most applicable tax-relief options for the out-of-pocket cost of caring for an adult individual are the medical expense itemized

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40 It should be noted that long-term care insurance premiums may qualify as a medical deduction (I.R.C. 213(d)(1)(D). However, as discussed above, the benefit is extremely limited because taxpayers must itemize deductions and qualified medical expenses must be greater than the AGI threshold. Very few taxpayers claim an itemized medical deduction (Table 4).
deduction and/or the dependent care credit. For each, the adult individual must “qualify” for the tax relief.

To claim medical expenses paid on behalf of a loved-one, the taxpayer must itemize deductions. Thirty-six percent of tax returns filed report itemized deductions and the percentage is inversely related to taxpayer income level. Thus, taxpayers with relatively lower income, who might need the benefit the most, are least likely to utilize an itemized medical expense deduction. Furthermore, the taxpayer must have substantial unreimbursed medical expenses to exceed the threshold for benefit.

The current law regarding the dependent care credit is problematic because it basically excludes the cost of live-in facilities. Moreover, the cost of care for dependents, child or adult, are substantially larger than the base of the dependent care credit. Finally, the credit is limited to expenses paid on behalf of two dependents. Most taxpayers will maximize the effect of the credit with two dependents in care. It is not uncommon for taxpayers in the sandwich generation to have two or more minor children who require daycare or after-school care. In such case, the dependent care credit does not provide tax relief to taxpayers who are financially responsible for the care of an aging parent.

The Congressional intent of the dependent care credit was to enable taxpayers to earn a living by providing some relief for child care costs. Financial assistance of our aging population is more than an employment-related expense; it is a ramification of our evolving society. Congress has proposed several bills that would improve the dependent care credit. Most entail relaxing the definition of a qualifying individual and/or increasing the amount of potential benefit – both of which are crucial to tax relief for long-term care costs. However, it is unclear

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41 Note 24 supra I.R.S. 2008b.
which version of the bill, if any, will become tax law. Finally, none of the proposed legislation speaks to the current limit of two individuals in care.

Instead of relaxing the definition of a qualifying individual for a dependent care credit, child care could be disentangled from long-term dependent care. A separate and distinct long-term care credit would provide specific relief to taxpayers who are providing financial support to the aging population in the United States. Alternatively, the tax law could be used to encourage taxpayers to plan for long-term care costs by providing a tax credit for the purchase of long-term care insurance. In this manner, the tax law could be used to incentivize planning and financing of long-term care. Any of these ideas should result in an equitably enhanced tax structure for taxpayers who bear the financial responsibility for long-term care costs of adult individuals. This financial responsibility is particularly poignant to taxpayers who are “sandwiched” between children and parents requiring care.
Figure 1: Estimated Sources of Long-Term Elderly Care Financing

- Medicaid: 35%
- Medicare: 25%
- Private Insurance: 4%
- Out-of-Pocket: 33%
- Other: 3%
### Table 1: Population Estimate by Age and Decade\(^1\)

**Panel A: Age $\geq$ 65 Years**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>12,397</td>
<td>16,675</td>
<td>20,107</td>
<td>25,674</td>
<td>31,241</td>
<td>35,071</td>
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</tbody>
</table>

**Panel B: Age $\geq$ 85 Years**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>590</td>
<td>940</td>
<td>1,431</td>
<td>2,269</td>
<td>3,060</td>
<td>4,286</td>
</tr>
</tbody>
</table>

Notes:
2. Population reported in thousands.

### Table 2: Life Expectancy by Decade and Gender\(^1\)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>68.2</td>
<td>69.7</td>
<td>70.8</td>
<td>73.7</td>
<td>75.4</td>
<td>77.0</td>
</tr>
<tr>
<td>Male</td>
<td>65.6</td>
<td>66.6</td>
<td>67.1</td>
<td>70.0</td>
<td>71.8</td>
<td>74.3</td>
</tr>
<tr>
<td>Female</td>
<td>71.1</td>
<td>73.1</td>
<td>74.7</td>
<td>77.4</td>
<td>78.8</td>
<td>79.7</td>
</tr>
</tbody>
</table>

Notes:
### Table 3: Estimated Costs of Live-In Care for 2008

<table>
<thead>
<tr>
<th>Type of Facility</th>
<th>Daily Amount</th>
<th>Monthly Amount</th>
<th>Annual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisted Living, private (one bedroom)</td>
<td>$ 99</td>
<td>$ 3,008</td>
<td>$ 36,090</td>
</tr>
<tr>
<td>Nursing Home semi private room</td>
<td>$ 187</td>
<td>$ 5,701</td>
<td>$ 68,408</td>
</tr>
<tr>
<td>Nursing Home private room</td>
<td>$ 209</td>
<td>$ 6,372</td>
<td>$ 76,460</td>
</tr>
</tbody>
</table>

The data shown is average for United States. Data is also available by state.

### Table 4: Itemized Deduction and Medical by AGI Level

<table>
<thead>
<tr>
<th>Item</th>
<th>AGI $ 40,000 – 50,000</th>
<th>AGI $ 75,000 – 100,000</th>
<th>AGI $ 100,000 – 200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Avg. $</td>
<td>% Filed$</td>
<td>Avg. $</td>
</tr>
<tr>
<td>Itemized Deductions</td>
<td>15,336</td>
<td>42.6</td>
<td>20,545</td>
</tr>
<tr>
<td>Medical Deduction</td>
<td>5,353</td>
<td>12.4</td>
<td>6,746</td>
</tr>
<tr>
<td>Medical Expenses$³</td>
<td>8,730</td>
<td>12.4</td>
<td>13,170</td>
</tr>
</tbody>
</table>

Based on 2005 IRS Data which is the most recent data published by the IRS.

1 The amounts represent the average for each item by AGI range.
2 The percent filed represents the number of tax returns with each tax return item divided by the total number of tax returns filed in each AGI category.
3 Total medical expenses reported by taxpayers who claimed a medical deduction. Thus, the percentage of returns filed is the same for medical expense and medical deduction.
Table 5: Tax Effect of Medical Deduction by Level of AGI

<table>
<thead>
<tr>
<th>AGI Level</th>
<th>$40,000 to 50,000</th>
<th>$75,000 to 100,000</th>
<th>$100,000 to 200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Medical Expense Itemized Deduction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (original) medical expense by AGI (Table 4)</td>
<td>8,730</td>
<td>13,170</td>
<td>19,524</td>
</tr>
<tr>
<td>Additional medical expense²</td>
<td>12,313</td>
<td>12,313</td>
<td>12,313</td>
</tr>
<tr>
<td>Total medical expense</td>
<td>21,043</td>
<td>25,483</td>
<td>31,837</td>
</tr>
<tr>
<td>Less medical threshold (7.5% AGI)</td>
<td>(3,375)</td>
<td>(6,563)</td>
<td>(11,250)</td>
</tr>
<tr>
<td>Medical itemized deduction</td>
<td>17,668</td>
<td>18,920</td>
<td>20,587</td>
</tr>
<tr>
<td><strong>Step 2: Taxable Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGI³</td>
<td>45,000</td>
<td>87,500</td>
<td>150,000</td>
</tr>
<tr>
<td>Exemptions (4 x $3,500)</td>
<td>(14,000)</td>
<td>(14,000)</td>
<td>(14,000)</td>
</tr>
<tr>
<td>Itemized before medical⁴</td>
<td>(9,983)</td>
<td>(13,799)</td>
<td>(17,569)</td>
</tr>
<tr>
<td>Medical itemized deduction (step 1)</td>
<td>(17,668)</td>
<td>(18,920)</td>
<td>(20,587)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>3,349</td>
<td>40,780</td>
<td>97,844</td>
</tr>
<tr>
<td><strong>Step 3: Tax Relief of Medical Deduction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical itemized deduction (step 1)</td>
<td>17,668</td>
<td>18,920</td>
<td>20,587</td>
</tr>
<tr>
<td>Marginal tax rate⁵</td>
<td>10%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Tax relief for medical deduction</td>
<td>1,767</td>
<td>2,838</td>
<td>5,147</td>
</tr>
<tr>
<td><strong>Step 4: After-Tax Cash Outflow of Total Medical Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total medical expense (step 1)</td>
<td>21,043</td>
<td>25,483</td>
<td>31,837</td>
</tr>
<tr>
<td>Less tax relief for medical (step 3)</td>
<td>(1,767)</td>
<td>(2,838)</td>
<td>(5,147)</td>
</tr>
<tr>
<td>After-tax cash outflow of medical</td>
<td>19,277</td>
<td>22,645</td>
<td>26,690</td>
</tr>
<tr>
<td><strong>Step 5: After-Tax Cash Outflow of Additional Medical Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional medical expense (step 1)</td>
<td>12,313</td>
<td>12,313</td>
<td>12,313</td>
</tr>
<tr>
<td>Less tax relief for medical⁶</td>
<td>(1,231)</td>
<td>(1,847)</td>
<td>(3,078)</td>
</tr>
<tr>
<td>After-tax cash outflow of additional medical</td>
<td>11,082</td>
<td>10,466</td>
<td>9,235</td>
</tr>
</tbody>
</table>

¹ Tax Year 2008. Taxpayer married filing jointly status with two dependents.
² Additional medical expense is calculated by multiplying estimate of out-of-pocket long-term care costs (18%) times annual cost of semi-private room in nursing home ($68,408).
³ Mean of SOI data AGI Level.
⁴ Itemized deduction less medical deduction as reported by SOI data (see Table 4).
⁵ MTR based on taxable income calculated in Step 2.
⁶ Tax relief is calculated by multiplying additional medical ($12,313) times MTR (step 3).
Table 6: Dependent Care Credit Percentage (Current Law)

<table>
<thead>
<tr>
<th>AGI - Over</th>
<th>AGI - But not over</th>
<th>Applicable %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>15,000</td>
<td>35 %</td>
</tr>
<tr>
<td>15,000</td>
<td>17,000</td>
<td>34 %</td>
</tr>
<tr>
<td>17,000</td>
<td>19,000</td>
<td>33 %</td>
</tr>
<tr>
<td>19,000</td>
<td>21,000</td>
<td>32 %</td>
</tr>
<tr>
<td>21,000</td>
<td>23,000</td>
<td>31 %</td>
</tr>
<tr>
<td>23,000</td>
<td>25,000</td>
<td>30 %</td>
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<tr>
<td>25,000</td>
<td>27,000</td>
<td>29 %</td>
</tr>
<tr>
<td>27,000</td>
<td>29,000</td>
<td>28 %</td>
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<tr>
<td>29,000</td>
<td>31,000</td>
<td>27 %</td>
</tr>
<tr>
<td>31,000</td>
<td>33,000</td>
<td>26 %</td>
</tr>
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<td>33,000</td>
<td>35,000</td>
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<tr>
<td>35,000</td>
<td>37,000</td>
<td>24 %</td>
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<tr>
<td>37,000</td>
<td>39,000</td>
<td>23 %</td>
</tr>
<tr>
<td>39,000</td>
<td>41,000</td>
<td>22 %</td>
</tr>
<tr>
<td>41,000</td>
<td>43,000</td>
<td>21 %</td>
</tr>
<tr>
<td><strong>43,000</strong></td>
<td><strong>No Limit</strong></td>
<td><strong>20 %</strong></td>
</tr>
</tbody>
</table>

Table 7: 110th Congress Pending Legislation Regarding Dependent Care Credit

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Dated</th>
<th>Title and / or Description</th>
</tr>
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<tbody>
<tr>
<td>H.R. 7237</td>
<td>09/29/2008</td>
<td>Middle Class Dependent Care Fairness Act of 2008 – Repeal of phase-down of credit percentage for dependent care credit</td>
</tr>
<tr>
<td>H.R. 6390</td>
<td>06/26/2008</td>
<td>Caregiver Financial Relief Act of 2008 – Modification of dependent care credit</td>
</tr>
<tr>
<td>H.R. 5655</td>
<td>03/13/2008</td>
<td>Expansion and improvement of dependent care credit</td>
</tr>
<tr>
<td>H.R. 4164</td>
<td>11/13/2007</td>
<td>Child Care Affordability Act of 2007 - Modification of credit for expenses for household and dependent care services necessary for gainful employment</td>
</tr>
<tr>
<td>H.R. 4039</td>
<td>11/01/2007</td>
<td>Child Care Family Tax Relief Act of 2007 - Increase and inflation adjustment for dependent care credit.</td>
</tr>
<tr>
<td>H.R. 2902</td>
<td>06/28/2007</td>
<td>Middle Class Opportunity Act of 2007 - Expansion of dependent care credit</td>
</tr>
<tr>
<td>H.R. 2021</td>
<td>04/24/2007</td>
<td>Right Start Child Care and Education Act of 2007 – Increase in child care credit</td>
</tr>
<tr>
<td>H.R. 1911</td>
<td>04/18/2007</td>
<td>Tax Relief for Working Caregivers Act of 2007 - Modification of credit for expenses for household and dependent care services necessary for gainful employment</td>
</tr>
<tr>
<td>H.R. 1871</td>
<td>04/17/2007</td>
<td>Family Care Act of 2007 – Increase and inflation adjustment for dependent care credit</td>
</tr>
<tr>
<td>H.R. 1421</td>
<td>03/08/2007</td>
<td>Parents Tax Relief Act of 2007 - Minimum dependent care credit for parents caring for children at home</td>
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<tr>
<td>S. 816</td>
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<td>Parents Tax Relief Act of 2007- Minimum dependent care credit for parents caring for children at home</td>
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<tr>
<td>S. 614</td>
<td>02/15/2007</td>
<td>Middle Class Opportunity Act of 2007 - Expansion of dependent care credit</td>
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</tbody>
</table>

H.R. denotes a bill introduced in the House of Representatives.
S. denotes Senate a bill introduced by the Senate.
Table 8: Outline Pending Legislation of the 110th Congress

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>H.R. 1421</td>
<td>Stay at home parent of child &lt; 7 deemed to have ERE.</td>
<td></td>
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<td>Introduce phase-out</td>
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<tr>
<td>S. 816</td>
<td>Stay at home parent of child &lt; 7 deemed to have ERE.</td>
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<td>Introduce phase-out</td>
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<tr>
<td>H.R. 5655</td>
<td>Strike dependent required principal place of abode &gt; ½ year requirement</td>
<td>Services outside home, strike required daily time in taxpayer home</td>
<td>$ 6,000 &amp; $12,000 and if AGI &lt; $30,000 then $ 9,000 &amp; $18,000</td>
<td></td>
<td>Refundable; Retirees deemed to have ERE.</td>
</tr>
<tr>
<td>H.R. 4164</td>
<td></td>
<td>$13,000 &amp; 200% of first base</td>
<td></td>
<td></td>
<td>Refundable</td>
</tr>
<tr>
<td>H.R. 6390</td>
<td>Specific inclusion of parent &amp; grand with no dependent abode requirement</td>
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<tr>
<td>H.R. 2902</td>
<td>Specific inclusion of parent &amp; grand with no dependent abode requirement</td>
<td></td>
<td></td>
<td>Change Threshold from $15,000 to $75,000</td>
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</tr>
<tr>
<td>H.R. 1911</td>
<td>Specific inclusion of parent &amp; grand with no dependent abode requirement</td>
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<td></td>
<td>Change Threshold from $15,000 to $75,000</td>
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</tr>
<tr>
<td>S. 614</td>
<td>Specific inclusion of parent &amp; grand with no dependent abode requirement</td>
<td></td>
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<td>Change Threshold from $15,000 to $75,000</td>
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<tr>
<td>H.R. 2021</td>
<td></td>
<td>$ 5,000 &amp; $10,000</td>
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<td>Change Threshold from $15,000 to $20,000</td>
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<tr>
<td>H.R. 7237</td>
<td></td>
<td></td>
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<td>All AGI, 35%</td>
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<tr>
<td>H.R. 4039</td>
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<td>AGI &lt; $70,000, 40% AGI ≥ $70,000, 20%</td>
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<td></td>
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<tr>
<td>H.R. 1871</td>
<td></td>
<td></td>
<td>AGI &lt; $100,000, 40% AGI ≥ $100,000, 20%</td>
<td></td>
<td></td>
</tr>
</tbody>
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Our responsibility is to provide strong academic programs that instill excellence, confidence and strong leadership skills in our graduates. Our aim is to (1) promote critical and independent thinking, (2) foster personal responsibility and (3) develop students whose performance and commitment mark them as leaders contributing to the business community and society. The College will serve as a center for business scholarship, creative research and outreach activities to the citizens and institutions of the State of Rhode Island as well as the regional, national and international communities.

Mission

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The creation of this working paper series has been funded by an endowment established by William A. Orme, URI College of Business Administration, Class of 1949 and former head of the General Electric Foundation. This working paper series is intended to permit faculty members to obtain feedback on research activities before the research is submitted to academic and professional journals and professional associations for presentations.

An award is presented annually for the most outstanding paper submitted.