

February 10, 2019

TO: Honorable Members, VERMONT TAX STRUCTURE COMMISSION
COMMISSIONER DEB BRIGHTON
COMMISSIONER BRAM KLEPPNER
COMMISSIONER STEPHEN TRENHOLM
ONE BALDWIN STREET MONTPELIER, VT 05633-5701

RE: Impact of 2018 VT Tax Law Changes on Individuals who itemize and who have high medical expenses

Dear Commissioners:

The senior community is just learning of the impact of the major tax change, made last year, eliminating all medical deductions to VT income, unfortunately too late to mobilize to affect the 2018 tax year. We are hard at work to begin mobilizing a coalition of senior and disability advocacy organizations to document and educate about the effects of this tax change. We believe that seniors and younger middle-class individuals and families with catastrophic medical expenses, will be affected in ways that the Legislature did not fully comprehend. In your deliberations, which are welcome exactly for this reason, as you look to improving the coherence of the tax structure, we request that you consider the points below regarding the way Vermont deals with high medical expenses borne by individuals.

Very truly yours,

Hugh L. Williams
Lucy Beck
Shelburne, VT

- Whereas the state does a very good job trying to address inequities for lower income individuals in a variety of need areas, this decision will now impact middle income individuals and their families, who tend to use more of their own funds to cope with medical copays, uncovered medical and nursing home expenses and to pay premiums for long term care insurance and medical insurance on the open market. Seniors who are socially responsible enough to pay forward for their own nursing care needs, and sell their house in order to pay the large entrance fees at a CCRC, have a significant amount of that fee recognized by the government as a pay forward on nursing home expenses; this is another form of long-term care insurance. All these expenses have heretofore been able to be itemized, depending on their size, in relation to the individual or family income.
- VT used to use gross income from the Federal returns, which had been adjusted by deduction of eligible medical expenses; now it will be using the Federal AGI before those adjustments, so Vermont will start out taxing a higher income for all.
- We are aware that Federal government doubled the standard deduction, so it is possible far fewer people will be able to claim medical expenses on the Federal side as well. And in 2019 on the Federal side, the percentage for taking itemized medical deductions will rise to 10%.
- We recognize the attempt to provide fairness through the new individual standard deduction and personal exemption, as well as the income limited tax on Social Security, but suggest some examination of how high legitimate medical expenses can be, as a reality check.

- Thus, in our imperfect health care environment, perhaps the wisest approach to this situation is to stop focusing on ability to itemize per se (which some estimate will fall in VT from 30% to 10% of the taxpayers) and instead pay attention to how unevenly our society supports families with the burden of the care of the ill, elderly, and the catastrophically disabled. We suggest a consideration deducting a percentage of qualified medical expenses in Vermont, the amount to be determined by Vermont.
- We have heard numerous statements about the small number of people the loss of deductions will affect. But it seems the price tag is quite high when estimates are made about returning the deduction. Truly, this should provide an ethics check. Revenues are being generated from taxes that are higher as a result of the loss of medical deductions???
- This fairness or ethics check is further emphasized when we see that the new VT tax system recognizes a limited credit for **voluntary charitable** contribution but gives neither a credit or deduction to **non-voluntary medical** expenses. Reports are that this was due to strong lobbying on the part of charities. (Perhaps no one thought about the possibility that those most impacted by the loss of the medical expense deduction might need to rethink their level of charitable giving in the future).
- We observe, as did Governor Scott in his recent Budget Address, that the VT Estate Tax is out of line with most other states. That factor, together with changes like this loss of the medical deduction, can be detrimental to retaining Vermonters and attracting seniors to our state.
- Finally, we close with this excerpt from the January 15, 2019 Taxpayer Advocate Report:
“Personal Income Tax” (pg. 6)
“Issue: There is a small but vulnerable population of Vermont residents that have high medical expenses relative to their adjusted gross income. Prior to the federal and Vermont tax law changes in 2018, these taxpayers would receive a sizeable federal deduction that would flow through to their Vermont return. Under the current law, these individuals receive a deduction at the federal level but not deduction in Vermont. Effectively, this is greatly increasing the taxable income and, therefore, Vermont income tax due for these individuals relative to prior to the statutory changes in 2018. This is especially difficult for this population to absorb as medical expenses are generally an area that a taxpayer cannot plan for or reduce, without potentially putting their health at risk.
Proposed resolution: Amend our income tax statute to include a medical expenses deduction or credit.” [emphasis added]