



HOUSE BILL 295: Health Care Sharing Expenses Deduction.

2017-2018 General Assembly

Committee: House Finance	Date: May 16, 2017
Introduced by: Reps. S. Martin, Dobson	Prepared by: Greg Roney
Analysis of: First Edition	Committee Counsel

OVERVIEW: *House Bill 295 would allow a State income tax deduction for payments to a health care sharing organization for the health care expenses of the members of the health care sharing organization.*

CURRENT LAW: G.S. 105-153.5(a)(2)(c) allows a State income tax deduction for medical and dental expenses deductible under Internal Revenue Code §213 (IRC). Under IRC §213, unreimbursed medical expenses are deductible to the extent the expenses exceed 10% of adjusted gross income (AGI). The AGI floor means taxpayers receive no benefit for expenses below the AGI floor. Deductible medical expenses include the costs of disease treatment, qualified long-term care insurance, and medical insurance. Payments to health care sharing organizations are not qualified medical expenses under federal law and are not deductible on federal or State tax returns.

Additionally, the medical expense deduction can only be claimed by a taxpayer who itemizes deductions. The current State standard deduction is \$8,750 for single taxpayers and \$17,500 for married taxpayers filing jointly. For example, a single taxpayer (with no other itemized deductions) could deduct medical expenses that exceed 10% of AGI but would not itemize until the expenses exceed the standard deduction (\$8,750).

G.S. 58-49-12 defines "health care sharing organization" and exempts the organizations from regulation as insurance companies. Specifically, a "health care sharing organization" must:

- Maintain nonprofit entity status under the Internal Revenue Code
- Limit participants to those who share similar interests as the organization
- Provide for the financial or medical needs of a participant through contributions from one participant to another in accordance with criteria established by the organization
- Provide amounts that participants may contribute with no assumption of risk or promise to pay among the participants and no assumption of risk or promise to pay by the organization
- Publish a written monthly statement to participants listing total qualified needs submitted to the organization and the amount assigned to participants for their contribution
- Provide the following written disclaimer on applications: "NOTICE: The organization facilitating the sharing of medical expenses is not an insurance company and neither its guidelines nor its plan of operation is an insurance policy. Whether anyone chooses to assist you with your medical bills will be voluntary. No other participant will be compelled by law to contribute toward your medical bills. As such, participation in the organization or a subscription to any of its documents should never be considered to be insurance. Regardless of whether you

Karen Cochrane-Brown
Director



Legislative Analysis
Division
919-733-2578

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receive any payment for medical expenses or whether this organization continues to operate, you are always personally liable for the payment of your own medical bills."

BILL ANALYSIS: House Bill 295 would modify the income tax deduction for medical expenses under G.S. 105-153.5(a)(2)(c) to treat payments to a health care sharing organization for the health care expenses of the members of the health care sharing organization as medical expenses. The current 10% AGI floor continues to apply. Additionally, taxpayers would need medical expenses (or other itemized deductions) exceeding the standard deduction (\$8,750 single/\$17,500 married taxpayers) to benefit from the medical expense deduction.

EFFECTIVE DATE: House Bill 295 would be effective for taxable years beginning on or after January 1, 2018.

BACKGROUND: According to the Alliance of Health Care Sharing Ministries (AHCSM), 12,600 households in the State are estimated to participate in health care sharing. The average monthly shared amount is \$303 per month (\$3,636 per year).