# SENATE BILL 622:
# Reduce Threshold/Medical Expense Deduction.

***2019-2020 General Assembly***

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| **Committee:** | House Finance | **Date:** | January 13, 2020 |
| **Introduced by:** | Sens. Tillman, Hise, Newton | **Prepared by:** | Cindy Avrette<br>Staff Attorney |
| **Analysis of:** | PCS to Fourth Edition<br>S622-CSRBf-28 | | |

***OVERVIEW: The proposed House committee substitute for Senate Bill 622 would lower the threshold amount for the State's income tax deduction for medical expenses to conform to the federal threshold amount.***

**CURRENT LAW:** North Carolina piggybacks the federal deduction for medical and dental expenses by its reference to the Code, as of January 1, 2019. As of January 1, 2019, the Code allowed a medical and dental expense deduction for unreimbursed medical expenses that exceed 10% of the taxpayer's adjusted gross income (AGI).

On December 20, 2019, Congress enacted, and the President signed into law, H.R. 1865. That legislation incorporated the Taxpayer Certainty and Disaster Tax Relief Act of 2019. The Act extended certain individual and business-related tax provisions. One of the "extenders" is a reduction in the medical expense deduction threshold amount for the 2019 and 2020 tax years from 10% of AGI to 7.5% of AGI. The threshold percentage returns to 10% for the 2021 taxable year.

**BILL ANALYSIS:** The **PCS for Senate Bill 622** would update the reference to the Code for purposes of the medical and dental expense deduction only to January 1, 2020. The change would reduce the threshold amount for the North Carolina medical and dental expense deduction from 10% to 7.5% for the 2019 and 2020 taxable years.

**EFFECTIVE DATE:** The bill would become effective when it becomes law.

**BACKGROUND:** North Carolina's tax law tracks many provisions of the federal Internal Revenue Code by reference to the Code. Article V, Section 2(1) of the North Carolina Constitution does not allow the General Assembly to delegate its taxing power. The General Assembly will need to determine during the short session later this year whether to update its reference to the Code.

The purpose of this bill is to update the Code reference with respect to the one provision included in the federal legislation that impacts the 2019 taxable year and is applicable to a federal tax provision that the State has historically piggybacked. The other provisions in the federal legislation that impact the 2019 taxable year pertain to tax provisions from which the State has historically decoupled.[1]

[1] Income exclusion for forgiveness of debt on primary residence; mortgage insurance deductible as mortgage interest; and deduction for tuition and expense.