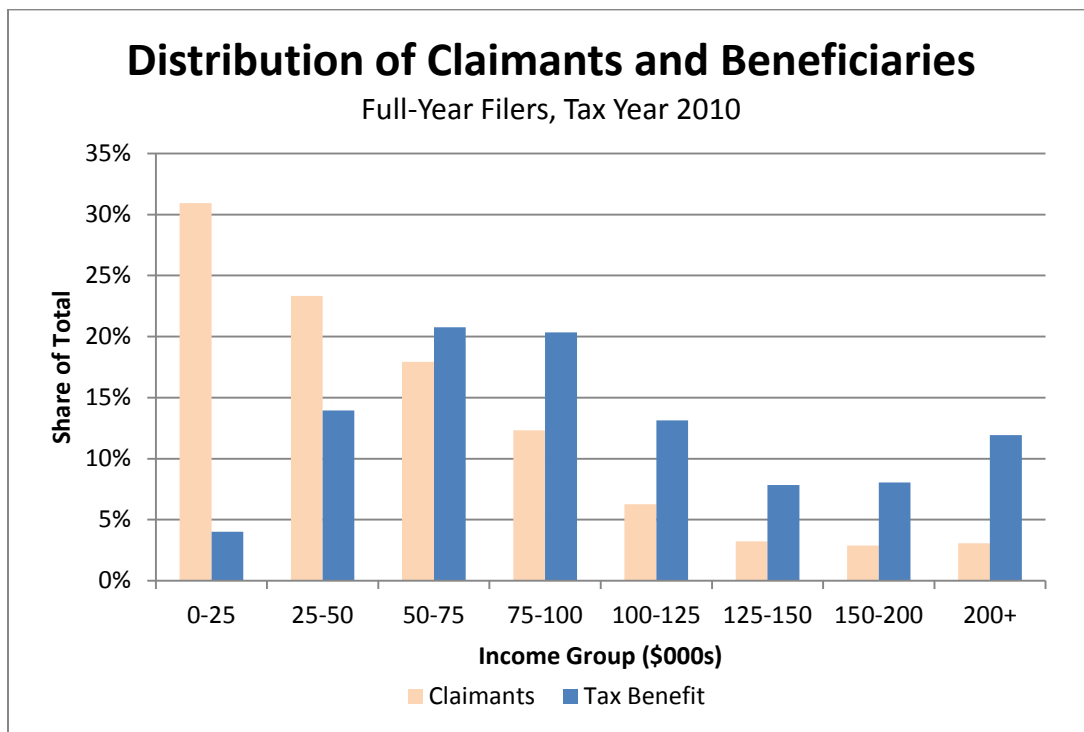


Oregon's Additional Medical Deduction

Federal tax law allows medical and dental expenses in excess of 7.5% of a taxpayer's Adjusted Gross Income (AGI) to be deducted from income for all taxpayers who itemize deductions. Oregon connects to federal law allowing all taxpayers who itemize to deduct medical expenses above 7.5% of income from Oregon taxes. In addition, Oregon law allows seniors (62 and above) who itemize their Oregon tax returns to deduct all medical expenses below 7.5% of AGI regardless of income level. This additional deduction is allowed for joint taxpayers as long as one spouse is 62 or over. In effect, Oregon law allows all medical expenses to be deducted from Oregon income for those taxpayers who itemize and are 62 or over or in the case of joint filers have one spouse who is 62 or over.

Current Law Revenue Impact					
Biennium	2011-13	2013-15	2015-17	2017-19	2019-21
\$ Millions	-\$153	-\$187	-\$225	-\$267	-\$312



Examples

	Single A (\$)		Joint B (\$)		Joint C (\$)	
	With SMD	Without SMD	With SMD	Without SMD	With SMD	Without SMD
AGI	25,000	25,000	50,000	50,000	500,000	500,000
Medical expenses	2,000	2,000	100,000	100,000	25,000	25,000
Federal Taxes						
Non-medical deductions	6,389	6,389	18,737	18,737	78,683	78,683
Medical deduction	125	125	96,250	96,250	0	0
taxable income	14,986	14,986	0	0	414,317	414,317
Oregon Taxes						
Schedule A deductions	6,514	6,514	114,987	114,987	78,683	78,683
OR medical deduction	1,875	0	3,750	0	25,000	0
taxable income	15,814	17,689	0	0	428,540	453,540
tax	1,022	1,191	0	0	39,613	42,088
tax difference		169		0		2,475

Policy Options

Repeal: Eliminate the Senior Medical Deduction. This approach would limit medical deductions for purposes of Oregon’s income tax to those allowed on federal Schedule A (amounts above the floor as determined by federal law).

Option 1: One policy option is to retain the itemized deduction in its current form, but limit the amount of the deduction. This approach would contain the cost of the policy while allowing eligible taxpayers to deduct a base level of medical expenses from their taxable income. Estimates are provided here for a limit of \$3,000 per eligible taxpayer (i.e. age 62 or over).

Option 2: Another option is to convert the itemized deduction to a subtraction while limiting the amount of the subtraction. This approach would expand the policy by allowing all eligible taxpayers to subtract a base level of medical expenses, not just those who itemized deductions. To contain policy costs, the cap would need to be lower than one used in Option 1. Estimates are provided here for a limit of \$1,500 per eligible taxpayer (i.e. age 62 or over).

Estimated Revenue Impacts

\$ Millions

	2013-15	2015-17	2017-19	2019-21
Full Repeal	\$187	\$225	\$267	\$312
Option 1	\$24	\$31	\$40	\$49
Option 2	\$59	\$78	\$101	\$127

Distributions of Tax Benefit

Income (\$000s)	Current Law	Option 1	Option 2
0-25	9.5%	11.1%	22.0%
25-50	17.4%	20.3%	27.8%
50-75	21.1%	22.8%	21.4%
75-100	18.7%	19.9%	14.3%
100-125	11.4%	11.1%	6.3%
125-150	6.1%	5.1%	2.9%
150-200	4.7%	3.4%	1.9%
200+	11.1%	6.4%	3.4%
Total	100.0%	100.0%	100.0%