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BY THE U.S. GENERAL ACCOUNTING OFFICE 119341

Report To The Chairman, Special Committee On Aging United States Senate

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Assessment Of The Use Of Tax Credits For Families Who Provide Health Care To Disabled Elderly Relatives

In assessing proposed tax credit legislation for assisting families caring for disabled elderly relatives, GAO finds that families are the predominant providers of long-term care for the elderly. However, information on the cost of this care is inadequate. GAO also finds that several States have proposed tax relief legislation to assist families, but few have actually enacted such legislation. At the Federal level, tax provisions exist to offset some expenses, but because of rigid eligibility requirements, few families use them. GAO also finds that current data collection provisions do not allow the Congress to determine how effective the new legislation might be. The lack of evaluative data poses significant problems for projecting costs and determining how best to target the legislation's goals. Requiring evaluative information in new tax credit legislation might allow the Congress to know at least who benefits from the credit and how its use changes over time.

UNITED STATES GENERAL ACCOUNTING OFFICE

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GAO/IPE-82-7
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INSTITUTE FOR PROGRAM
EVALUATION

B-207310

The Honorable John Heinz
Chairman, Special Committee on Aging
United States Senate

Dear Mr. Chairman:

Subject: Assessment of the Use of Tax Credits for Families Who Provide Health Care to Disabled Elderly Relatives (GAO/IPE-82-7)

In your October 21, 1981, letter, you requested the General Accounting Office to assist the Special Committee on Aging in evaluating tax relief mechanisms as a way of providing financial assistance to families who care for chronically ill elderly relatives. These mechanisms, commonly referred to as "tax expenditures," are defined as

> "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability . . . ." 1/*

In meetings with staff members from your Committee, we identified three questions whose answers, in particular, would be useful:

1. What financial costs do families incur in caring for their elderly disabled relatives?

2. What tax relief programs currently assist families in providing care? Have they been effective?

3. What issues should be considered in assessing the merits of legislative proposals for tax credits?

To answer these questions, we reviewed the literature, surveyed State offices on aging, and reviewed the tax return data for several tax expenditures, including the child and dependent care tax credit.

Tax expenditures--including tax credits--have been gaining in popularity as an alternative to direct spending and to loan

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*Bibliographic and data sources are cited in enclosure I.

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programs. They are considered to be easier to operate and require almost no administrative overhead. 2/ They are also being proposed with increasing frequency at the Federal and State levels as a way of alleviating some of the burden on families who care for their chronically ill relatives.

Tax expenditures, however, have several drawbacks. For one, they are costly. Existing tax expenditures are now equivalent in cost to about 25 percent of total U.S. spending. 3/ For another, they are intrinsically difficult to evaluate, primarily because essential information is neither reported on tax forms nor available from other sources. In this report, we present our answers to the three questions in detail.

WHAT DOES IT COST FAMILIES TO CARE FOR ELDERLY RELATIVES?

According to a recent Health Care Financing Administration study, long-term care is an overriding need of the elderly. 4/ Social Security, Medicare and Medicaid, and other social service programs provide some measure of public support, but the responsibility for long-term care is frequently assumed, at least initially, by the family. 5/ Long-term in-home care consists of services to elderly people who need help with the basic activities of daily living because they have chronic functional disabilities. Most commonly, they need help with bathing and dressing, and they need homemaker services such as house cleaning, shopping, and preparing meals. Several studies estimate that 60 to 80 percent of these services are provided without compensation by family and friends. 6/ Our 1976 study of 1,311 elderly persons in Cleveland, Ohio, disclosed that the average annual cost of assisting an elderly person there with these daily activities was about $2,400 and that the family and friends provided about $1,820 of this, or 76 percent of the total assistance needed. 7/

Our review of the relevant literature indicates, however, that how much direct funding families provide is not known exactly. Whereas in our Cleveland study we estimated that despite public and private payments for health goods and services, families and friends paid about $172 annually out of pocket for financial help to their elderly relatives,* data collected for 1977 in the National Medical Care Expenditures Survey disclosed that the disabled aged have out-of-pocket costs for medical care averaging about $314 annually. The study did not specify who paid these, the family or the elderly themselves. 8/**

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*The cost figures from our 1976 study are based on data collected in 1975 and reflect dollar values of the costs at that time.

**The 1977 Survey data, based on information collected in 1977 and reflecting dollar values of the costs at that time, listed "nondisabled aged" as spending about $284 annually, "disabled nonaged" $301, and "nondisabled nonaged" $195.

The general conclusion of the studies we reviewed is that families are providing extensive care to their disabled relatives, whether in the form of direct financial outlays or services. 9/ Moreover, there is considerable interest in tax proposals that would directly benefit these families. For example, a recent study by the U.S. Department of Health and Human Services expressed strong support for giving tax incentives to families who care for their parents at home rather than in government-funded institutions. 10/

WHAT TAX RELIEF MECHANISMS ASSIST FAMILIES NOW?

Only a few Federal tax relief programs specifically assist family members who provide care for their relatives. The child and dependent care tax credit, for example, allows taxpayers a credit against tax liabilities for "dependent" care expenses incurred because they are working. To claim the credit, a taxpayer must meet the following conditions:

--the expenses for care must have been incurred in conjunction with the taxpayer's necessity for gainful employment;

--the dependent, whether a child or an elderly relative, must have received more than half of that year's support from the taxpayer; and

--the dependent, if older than 15, must be dependent physically or mentally.

If these criteria are met, the tax expenditure rule allows a credit for expenses up to $2,400 for each of two dependents. This tax relief is available to all taxpayers who care for elderly relatives, but the number of people who actually receive it is considered to be small. Dependents other than children account for only 10 percent of the claims that have been filed for it. How many "other dependents" are elderly is not known because data on the age of "other dependents" are not available. 11/

The child and dependent care tax credit was not designed to assist in the care of children or the elderly. When it was enacted in 1954, it was viewed as an employment-related expense. However, changes in 1971 included the addition of provisions to encourage the care of incapacitated people in their homes rather than in institutions. Later the deduction aspect was also changed to a nonrefundable credit. 12/*

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*Refundability refers to whether any amount in excess of a tax liability can be refunded to the taxpayer. It assures low-income individuals that they will be treated in the same way as high-income individuals. Nonrefundability favors high-income individuals but reduces the potential loss of tax revenue. See Bruce L. Balch, "Unification of the Credits Against Tax," Tax Notes (Arlington, Va.), August 31, 1981, p. 459.

Other Federal tax provisions benefit taxpayers who care for chronically ill relatives. Elderly people who meet the dependency requirements represent for the taxpayer an additional personal exemption, and their medical expenses may also be deducted. However, these provisions give only limited assistance to taxpayers because of the restrictiveness of the dependency test.*

Several States have implemented tax expenditure programs designed to help relieve the financial burden that health care for the elderly has imposed on families. To determine what programs exist among the States and the degree to which States have assessed the costs, constraints, and effects of these programs, we surveyed State offices on aging; they referred us to staff in State fiscal and legislative analysis divisions, and we interviewed them as well. We found that a few State governments have instituted tax incentive programs geared for supporting the family as caregiver, including some that duplicate the Federal child and dependent care tax credit.

Idaho and Oregon have passed tax laws that benefit families who provide financial support for elderly relatives' medical expenses. Under Idaho's recently enacted law, a "seniors" deduction allows $1,000 for each dependent (to a maximum of $3,000 per year) who is older than 65 and supported in the taxpayer's home, although the elderly dependent does not have to be related to the taxpayer. In lieu of the $1,000 deduction, a refundable tax credit of $100 may be claimed for each elderly member of the family (up to three) residing in the taxpayer's household. There are no limitations on the taxpayer's income. These provisions have been available only for the 1981 tax year and, therefore, no data on their use or cost are available.

In 1979, the Oregon State legislature also initiated a tax credit for caring for elderly people who are considered highly likely to enter an institution. To qualify for the credit, the family provider may not earn more than $17,500. The credit covers 8 percent of expenses, up to a maximum of $250, for food, clothing, housekeeping, transportation, medicine, and other related expenses. In 1980, only 40 taxpayers claimed this credit; in 1981, only 25 claimed it.

While no formal evaluation of the program was conducted, the Oregon Department of Human Resources suggested that one reason so few taxpayers claim this credit might be that they are required to complete a questionnaire about the nature of the elderly relative's disabilities and the type and amount of care they provide to this person. (We reproduce the form in enclosure II.) The completed questionnaire must then be sent to the Seniors' Division

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*A taxpayer is allowed an exemption of $1,000 for each dependent who has less than $1,000 of gross income and for whom the taxpayer has furnished at least one-half of the support during the calendar year.

of the Department, which certifies eligibility, returning the certificate to the taxpayer, who must attach it to the tax return. The 1981 regular session of the Oregon legislature considered a proposal for simplifying this process in order to increase the tax credit's use, but the measure failed because of uncertainty about how it might affect State revenues.

Tax relief proposals have been introduced in several other State legislatures, among them Minnesota, which proposed a tax credit of up to $600 for taxpayers who support an elderly person in either home, the taxpayer's or the elderly person's. The credit can be claimed for someone who is at least 60 years old, has an annual income of less than $7,500, and has been certified as needing nursing home care or social services in order to remain outside an institution. The taxpayer may receive the credit for the expense of providing food, clothing, transportation, and some medical care. Further, the credit is based on a sliding income scale, so that the taxpayer may claim either (1) 25 percent of expenses or (2) a maximum of $600 if the elderly person's income is less than $3,000, of $500 if the income is between $3,000 and $5,000, or of $250 if the income is between $5,000 and $7,500.

Kentucky introduced two proposals, one to provide a $40 tax credit and the other to allow a deduction to taxpayers who are taking care of disabled elderly relatives. The tax deduction proposal would allow relatives, friends, and acquaintances of people who receive medical assistance to contribute to their support and to claim a State income tax deduction for the amount of the contribution. The intention in the proposal

> "is to encourage persons to provide personal care for elderly relatives and dependents in the residence of the person being cared for or the residence of the relative providing the care in order that the elderly relative or dependent can continue to live in a community rather than [an] institutional environment . . . ." 13/

Kentucky's proposed tax credit of $40 would be

> "for each dependent of the taxpayer aged sixty-five (65) or older who is physically or mentally disabled and requires care within the home of the taxpayer, such care being necessary for the taxpayer to be gainfully employed . . . ." 14/

In addition, some States have also instituted direct spending programs to help family caretakers. For example, in October 1979, Maryland established a family support demonstration program as a way of studying the cost of various proposed tax relief alternatives for families to assume and retain responsibility for the elderly who are ill. The program, which expires in June 1983, is designed to provide cash of not more than $2,000 directly to primary caregivers who meet certain eligibility requirements of both themselves and their elderly relatives.

Maryland's demonstration project has been evaluated but the findings cannot be generalized beyond the study sample because of technical considerations such as the sample's size, the high mortality rate of the elderly relatives, and the procedures that were used to select the participants.* However, the findings do provide a snapshot of some of the problems families encounter when they take care of the chronically disabled elderly. Major problems seem to be fatigue, social isolation, family disruption, and loss of outside employment. Caretakers receiving financial assistance from the program report that the grant reduces these problems only minimally, although it permits them to purchase a more adequate supply of personal care items and to obtain nursing and respite services.** With respect to reducing or delaying nursing home admissions, the study observed that the rate of institutionalization has been relatively low for both the subsidized group and the non-subsidized control group for the first year of the project. Four persons from the subsidized group of 40 entered nursing homes; 2 entered from the control group of 39. The evidence does not adequately show that subsidized care reduces or delays institutionalization. 15/

WHAT ISSUES SHOULD BE CONSIDERED IN ASSESSING THE MERITS OF PROPOSED TAX CREDITS?

Among several issues that should be taken into account in assessing proposed tax legislation for assisting families who provide care to their elderly relatives are these: (1) Who would benefit? (2) What would it cost? (3) What oversight problems can be expected? (4) What are the problems in evaluating the effect of tax credits?

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*The sample size of the Maryland study is small and may not adequately represent the universe of elderly who are ill and living in the State. During the first year, 79 persons participated, 40 in the subsidized group and 39 in the control group. During the second year there were 60 in the subsidized group and 60 in the control group. Each group was divided into five age groups: there were 12 persons aged 65-74, there were 19 who were 75-84, there were 25 who were 85-94, there were 3 who were 95-104, and one was at least 105. The participants were also classified geographically as 23 urban, 22 suburban, and 15 rural. The sample size was reduced during the course of the study by a 35 percent mortality rate. The participants, who met a set of eligibility criteria, were recruited through the various media, but there is no indication as to whether they represented others who did not respond to the media recruitment.

**Respite care is defined as providing formal health care services to allow a brief interval of rest or relief to families or friends who have been providing care services.

Who Would Benefit?

In looking at who would benefit from such tax provisions, we find that five aspects of the target population are most significant, and we discuss them below.

Living arrangements

Whether the home health care benefits would be provided to elderly people living alone, with a spouse, or with relatives should be taken into account. Research indicates that the elderly now tend to make independent living arrangements more than they did in the past. For example, HHS reported an increase in the proportion of elderly who are 65 or older and who live alone from 19 percent in 1960 to 30 percent in 1979. Furthermore, approximately 52 percent lived with a spouse and only 15 percent, or approximately 3.8 million, lived with a relative. 16/* Living arrangement is important inasmuch as families provide care not only to elderly relatives living with them but also to those living independently.

Information on how many elderly people need and receive personal care from relatives is limited, but there are some estimates of how many are 65 or older and have major difficulties with daily activities and may, therefore, require assistance. According to unpublished data collected in the 1977 National Health Interview Survey (NHIS) by the National Center for Health Statistics, 3.7 million people aged 65 or older are unable to work, keep house, or engage in school activities. In table 1, we show NHIS estimates of the numbers of people with a variety of living arrangements by limitation in activity.

As the table indicates, of the more than 6 million elderly living alone in 1977, about 10 percent were unable to carry on major activities and about 22 percent were able to carry on major activities with some limitation. Among elderly living with relatives in 1977, 23 percent were unable to carry on major activities and 24 percent were able to carry on some major activities with some limitation. According to these estimates, a tax credit enacted in 1977 that included elderly living alone and with their families would potentially have benefited approximately 3.7 million people 65 and older, or 32 percent of the elderly living alone and 45 percent of the elderly living with relatives.

Severity of disabilities

Another significant aspect of the target population is that the severity of their disabilities in daily activities differs,

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*The percentages of elderly living alone and with a spouse were calculated from HHS data for 1979 that included the percentages of men and woman aged 65 or older by type of living arrangement. The remaining 3 percent lived with people who were not relatives. These percentages do not total to 100 because of rounding.

Table 1

Number of People 65 and Older by Living Arrangement and Limitation in Major Living Activity in 1977

Living arrangement	Unable to carry on major activity	Able to carry on major activity with some limitation	Limitation but not in major activity	No limitation in activity	Total
Alone	643,705	1,408,553	473,137	3,803,261	6,328,656
With spouse	2,309,101	2,231,220	584,244	7,039,561	12,164,126
With relatives other than spouse	806,327	764,442	185,577	1,691,422	3,447,768
With other than relative	80,902	69,795	20,461 a/	154,646	325,804
Total	3,840,035	4,474,010	1,263,419	12,688,890	22,266,354 b/

SOURCE: National Health Interview Survey, National Center for Health Statistics, Illness and Disability Statistics Branch, unpublished data for 1977.

a/Estimates below 35,000 are considered to be statistically unreliable.

b/This number is the total estimated civilian population aged 65 or older who were not institutionalized.

raising questions about differences in eligibility for a tax credit. For example, will families who provide any care assistance be eligible for a credit, or will only people who have billable medical expenses (to certified providers such as home health agencies) qualify? The size of the population of potential beneficiaries depends on the extent of disability that is taken into account. Moreover, when medical expenses are considered, consideration should also be given to whether a taxpayer who takes care of elderly people should be allowed to deduct medical expenses for those who meet the dependency test and also to receive a tax credit for what may be the same expenses.

Tax subsidies

Another question to be addressed is how much a tax expenditure would subsidize people who would normally provide care without it and whether it would increase the number of families who provide home care. Because tax expenditures are not accompanied by administrative or screening tests, they unavoidably subsidize people who would provide services even without the benefit of a tax credit. However, some attempt can be made to reduce the number of taxpayers who would receive financial benefits simply because of the existence of the tax credit. Imposing eligibility requirements could be one such attempt. For example, a tax credit for families providing care to relatives could be restricted by restricting the age of eligible relatives to 75 and older. This would increase the likelihood of benefiting the "most disabled" given that national estimates indicate that functional disabilities increase with age. 17/

Income groups

Another important aspect of the target population to consider is whether the tax credit should be limited to specific income groups. Little is known about who would actually claim the credit and what income groups they belong to. For instance, one study reports that "informal caregiving between family members and friends can be found more frequently among lower income and working class people than among higher income individuals". 18/ How many people in these groups would claim the credit is not known, however. If the objective of a tax credit is to provide tax relief to the people who are most likely to be in need of financial assistance, then targeting the credit to them will increase the likelihood that they will be able to use the tax provision.

One way tax credit provisions can target a specific group for receiving benefits can be seen in the changes to the child and dependent tax credit, enacted in the Economic Recovery Act of 1981. Before the 1982 tax year, the child and dependent tax credit set no income limitations and, hence, was available to all taxpayers who met the eligibility requirements. In reviewing IRS data for 1979 (the latest year for which complete data were available), we found that the majority of the benefits had been paid to individuals whose incomes were between $10,000 and $40,000.

Table 2

Percentage Distribution of Child and Dependent Tax Credit Benefits Claimed and Received by Income Group for 1979

Adjusted gross income	Child and dependent tax credit totals: Returns	Child and dependent tax credit totals: Dollars
$0	--	--
1-under 5,000	0.2%	0.1%
5,000-under 10,000	8.5	6.9
10,000-under 15,000	14.5	13.4
15,000-under 20,000	18.2	17.5
20,000-under 25,000	19.9	19.3
25,000-under 30,000	5.4	15.8
30,000-under 40,000	17.1	18.7
40,000-under 50,000	3.7	4.6
50,000-under 75,000	2.0	2.8
75,000-under 100,000	0.3	0.6
100,000 or more	0.2	0.4
Total	100.0	100.0

SOURCE: Department of the Treasury, Internal Revenue Service, Statistics of Income, Summer 1981.

a/Not all totals add to 100 because of rounding.

As can be seen in table 2, individuals with incomes of less than $10,000 received 7 percent of the benefits, while individuals whose incomes were between $10,000 and $40,000 received between 13.4 and 18.7 percent of the benefits.*

The Economic Recovery Act attempted to change this distribution of benefits by increasing the rate of the credit from 20 to

*That individuals whose incomes were less than $10,000 made so little use of this credit may be explained, in part, by the absence of a tax liability--the credit is nonrefundable.

30 percent for taxpayers whose incomes were $10,000 or less.** The effectiveness of this change will not be evident until the 1982 tax data have been compiled and analyzed.

Refundability

Finally, one has to consider whether the credit should be refundable. Refundable tax credits allow taxpayers to receive a refund of any amount of the credit that is in excess of their tax liability. Nonrefundable tax credits do not allow this, and therefore they fail to target low-income taxpayers who have no tax liability but might otherwise be eligible. If the intention in establishing the tax credit is to provide tax relief to caregivers who have low incomes, then consideration should be given to whether the tax credit is made refundable.

What would the program cost?

The second important issue in assessing tax legislation for assisting families who provide care for their elderly relatives is what a tax credit program would cost. The procedure for estimating the revenue that is lost through tax credits that have been enacted is to consider each expenditure in isolation and to determine how total tax receipts would change were the credit repealed while everything else, including the behavior of the taxpayers and the rest of the tax system, remained the same. However, estimating future revenue losses from tax expenditures, especially new ones, is a difficult task. For one thing, the obligation of the Federal Government depends entirely on the actions of private individuals--the taxpayers--and these are hard to predict. For another, inflation affects the cost of tax expenditures not only by leading to growth in income and deductions but also by creating steady inflationary increases in tax liability (sometimes called "bracket creep"). Moreover, when the tax law is changed, some provisions may inadvertently increase or decrease the number of people who are eligible for certain expenditures and, hence, the tax expenditure cost estimates. 19/

Estimating the costs of tax credits for people who take care of their elderly relatives is difficult for other reasons as well. To make cost projections, one has to determine how many elderly are ill and need assistance in daily living. Cost estimates also

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**The Economic Recovery Tax Act of 1981 increased the maximum expenditure that people eligible for the child and dependent tax credit could claim from $2,000 to $2,400 for each of two dependents (with this change becoming effective in the 1982 tax year). Thus, by increasing the rate of the credit from 20 to 30 percent for taxpayers whose incomes were $10,000 or less, the Act attempted to target to this group. The rate of the credit was reduced by one percentage point for each $2,000 of income or fraction thereof above $10,000 until it reached 20 percent for taxpayers whose incomes were greater than $28,000.

depend on whether the credit will be allowed only for care provided in a taxpayer's home or also for care provided to elderly relatives living alone or with a spouse or a friend. Information from which to make such estimates is limited. In fact, current research has focused instead on (1) who the primary caregivers are, (2) what their economic and demographic features are, (3) what special social and financial hardships they encounter, and (4) what assistance they need to help their relatives maintain their independence and avoid institutions. 20/*

Nevertheless, some attempts have been made to estimate what it would cost to enact a tax credit to help families provide service in their homes to people who are disabled. The Congressional Budget Office, for example, has estimated the cost of a tax credit provision in S. 234, introduced in the first session of the 97th Congress, at $300 million in 1984 and again in 1985. This bill would provide a $500 refundable tax credit to taxpayers supporting, in the taxpayer's home, a person who is physically or mentally impaired, whose impairment can be expected either to result in death or to continue for a long time or indefinitely, and who would have to move to an institution in the absence of adequate care at home. 21/

While the bill puts the maximum tax credit at $500, it also imposes specific limitations on the actual amount a taxpayer may receive. First, for incomes greater than $30,000, the credit is reduced by $50 for each $1,000 or fraction thereof of income up to $40,000. This in effect limits the credit to taxpayers whose incomes are $39,000 or less. Second, the tax credit is allowed only for expenses that have been paid. Third, the dependent must reside in the taxpayer's home for at least 270 days of the tax year. CBO's projection of a $300 million cost in 1984 and again in 1985 is based on the assumption that the credit would be claimed by 0.5 million to 0.8 million taxpayers. 22/

The Maryland State Office of Aging has also analyzed various tax relief alternatives, including tax credits, deductions, and exemptions. In its study, it speculated that a tax credit program covering 50 percent of personal care expenses totaling $2,060 for each individual would cost the State $8 million in lost revenue and would benefit slightly more than 12,000 people. 23/** Other States have reported conducting their own fiscal analyses for their tax credit proposals but did not supply us with their results.

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*Research findings indicate that most providers of care are women aged 45-64. As more women enter the labor force, concern increases about who will replace them. See Burton D. Dunlop, "Expanded Home-Based Care for the Impaired Elderly: Solution or Pipe Dream?" American Journal of Public Health, 70 (May 1980), p. 516.

**The family personal care cost was based on the following formula: documented total cost of care (estimated at $6,740) minus cash

In summary, estimating the cost of proposed new tax legislation is difficult for several reasons. The cost of already enacted tax credits can be determined retrospectively by looking at the income groups who claimed the various credits and the costs of each tax provision. But in projecting the cost of a tax that has not been enacted, especially one designed to assist families who are providing care, retrospection cannot address such uncertainties as (1) who will claim the credit, (2) what eligibility criteria will pertain, (3) what accountability mechanisms will be employed to minimize the credit's use by people who do not need it but stand to benefit from it financially, and (4) what provisions will be incorporated into the law for controlling costs.

<u>What are the oversight problems?</u>

While the use of tax expenditures has increased significantly in the past few years, there has not been a corresponding development of methods to monitor and account for these expenditures. The Congressional Budget Act of 1974 requires the President to submit tax expenditure information in the annual budget and also requires the Congressional Budget Office to issue an annual report that projects tax expenditures for each of the next five years, but

> "the Budget Act controls only the net overall effect of tax expenditures. Congress does not set specific functional targets for tax expenditures in its budget resolution as it does for direct spending programs. Nor does it allocate a target tax expenditure ceiling to its tax Committees . . . ." 24/

The ways in which the Congress currently obtains information on tax expenditure provisions include the following:

--<u>budget projections</u>, requiring five-year projections on estimated tax expenditure levels by major budget functions that must be included each year in budget committee reports; committee reports on new or increased tax expenditures must also include a five-year estimate of revenue loss.

--<u>revenue floors</u>, requiring a point of order on legislation that proposes a revenue loss that would reduce total revenue below an already established revenue floor; all revenue-reducing bills must compete for the limited amount of tax reduction permitted by a budget resolution.

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income of the elderly person (estimated at $2,580) minus annual imputed estate value (estimated at $2,100) equals cost to family (estimated at $2,060). The number of disabled elderly living at home in Maryland was estimated at 12,000.

--reconciliation, under which changes in spending and revenues can be ordered to reconcile current tax spending and revenue levels with overall totals agreed upon in a budget resolution. 25/

As further attempts to implement oversight mechanisms, H.R. 58 and H.R. 4882 as introduced in the first session of the 97th Congress set forth procedures for periodic review and control of Federal tax expenditures and for improved legislative oversight of Federal activities. In testimony on December 9, 1981, on H.R. 4882 before the Committee on Rules, we also recommended that tax expenditure controls be improved through the budget process and by means of oversight procedures for comparing tax expenditures to spending programs of similar purpose. 26/ Some tax expenditures are now subject to expiration dates and reporting requirements. Many, however, are not subject to regular review in the way that spending programs are, nor are they subject to annual appropriations or periodic reauthorization. 27/

What are the problems in evaluating the effect of tax credits?

The last issue we discuss on the difficulty of projecting the costs of and insuring oversight and accountability for tax credits is the difficulty of evaluating the results of tax credit legislation. Any evaluation would have to seek answers to the following questions:

--Is the tax provision meeting its intended objectives?

--Who receives the benefits of the tax credit?

--What is the cost?

But the current structure of tax credits makes for significant problems in answering them. For example, in reviewing the child and dependent care tax credit, we were able to obtain information only on what that provision costs, the number of individuals filing claims under it, and the distribution of these claims by income groups. With the exception of a few studies on the effectiveness of energy tax incentives, hardly any attempt has been made to determine whether tax expenditure provisions have achieved their objectives or whether taxpayers' behavior has been significantly influenced in the intended ways. 28/*

Tax expenditures do not lend themselves easily to evaluative methodologies primarily because much of the information that is

*Our review of existing analyses of the effectiveness of energy tax incentives indicates that analyses completed to date are limited and provide no definite answers about the effectiveness of tax incentives designed to encourage energy investments, energy savings, or energy production.

needed in evaluating the provisions is not required on tax forms and is not available from other sources. Information from the IRS "Statistics of Income" is useful for determining who claimed tax credits but it does not indicate whether taxpayers' behavior changed because of the tax expenditure. 29/ In proposals for new tax credit legislation, provisions might be included for requiring evaluative information after the programs were enacted. Such requirements might include periodic reviews and annual reports on costs and expenditures, on use and the characteristics of users, and on the specific income groups who were receiving benefits. One recommendation for collecting evaluative data is that demographic and cost information requirements be incorporated into the forms that taxpayers must complete in order to claim a tax credit. This might include such information as itemized expenses, for cost data, and, for demographic data, information on

1. the elderly being cared for by

    --age and sex,
    --income and assets,
    --type of disability and its length or severity,
    --the length of time residing in the taxpayer's household,
    --former place of residence during the last three or four years, and

2. the families that provide the care by

    --age and sex,
    --income of provider or household,
    --type of services provided.

Such information, if it were accompanied by a requirement for an annual report of costs and the number and income distribution of taxpayers claiming the credit, might be invaluable in identifying who uses the provision and how their characteristics change over time. This information would exceed what is now typically available under most tax credits, but it would still not be sufficient for assessing the effect of the tax credit. This is because it does not include, for example, information on whether institutionalization of an elderly relative was prevented or postponed or on whether families were helped to provide care they would not have provided without the tax credit. Even so, while adding to the cost and administrative burden of the tax credit, such requirements might help improve the data base from which the Congress reviews the use and benefits of the tax credit's provisions. Further, they might help provide a reasonable foundation for initiating special studies of the legislation's effect on the elderly and the people who care for them.

SUMMARY

In considering tax credits as a means of providing financial support to families who care for their chronically disabled elderly relatives, we attempted to answer three questions. The first required us to identify the financial costs that families pay in providing this care. We found that most research findings confirm that families are the predominant providers of long-term care for the elderly but also that the information that is available is inadequate for a complete assessment of the financial costs of this care.

Answering the second question, we reviewed Federal and State tax provisions to identify what tax legislation has already been enacted to give relief to families who provide care for the elderly ill. We found that several States have proposed tax relief legislation but that few have actually enacted it. None of the State provisions has been evaluated. At the Federal level, tax provisions exist to offset some expenses to families but rigid eligibility requirements result in relatively few families taking advantage of them.

To answer the third question, we had to identify the key issues for assessing the merits of tax credit legislation. One of these issues--determining who should receive a tax credit--would require specifying living arrangements, severity of disability, eligibility requirements (to minimize the possibility of subsidizing individuals who would have been cared for anyway), targeted income groups, and credit refundability.

Resolving another of the issues would require estimating the total cost of the credit, but the difficulties of doing so for new legislation include not only the uncertainty of who would claim the credit but also the problems inherent in making projections of how individuals would use it. Further difficulty stems from the inadequacy of present information on who the primary caregivers are, what services they are providing, how dependent the disabled elderly are on them, and the financial costs they incur.

Yet another issue in assessing tax credit legislation has to do with problems encountered in congressional oversight. The number of tax credits has grown tremendously over the past decade, while information on their effect is limited. We have earlier recommended that tax expenditure controls be improved through the budget process and oversight procedures for comparing tax expenditures to spending programs of similar purpose.

The last issue we examined is the difficulty of evaluating tax credit provisions. If the Congress enacts tax relief legislation to assist families who are providing care to their relatives, it will not be able to determine the effectiveness of this legislation under current provisions for data collection. The significance of this is that the lack of evaluative data poses a major problem in projecting costs and in determining how best to target the proposed goals of the legislation. Thus, requirements for evaluative information in legislation that is enacted might allow the Congress to know at least who is benefiting from a tax credit and how the use they make of it changes over time. This would add to the administrative complexity of tax credits, but it might provide valuable information that is typically not available under tax credit provisions.

We hope the information we have presented in this report will be useful in your efforts to provide tax relief to families who are caring for their elderly relatives. We did not obtain advance review and comments from agencies because the report is based on existing data sources. As we arranged with your office, we plan to make no further distribution of this report until five days from the report's date unless you publicly announce its contents earlier. After that time, we will send copies to people who are interested and make additional copies available to others upon request.

Sincerely yours,

Eleanor Chelimsky
Director

Enclosures - 2

NOTES

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4/Health Care Financing Administration, Long-term Care: Background and Future Directions, HCFA 81-20047 (Washington, D.C.: January 1981), p. 1.

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6/See for example, Lucy Y. Steinitz, "Informal Supports in Long-Term Care: Implications and Policy Options," prepared for the Administration on Aging, HHS, and the National Conference on Social Welfare, February 1981, p. 4.

7/U.S. General Accounting Office, Conditions of Older People: National Information System Needed, HRD-79-95 (Washington, D.C.: September 20, 1979), pp. 14-15.

8/Michael Hagan, "Out-of-Pocket Expenditure for Health Care by the Aged and Disabled," paper presented at the 108th Annual Meeting of the American Public Health Association, Los Angeles, California, November 3, 1981, p. 3.

9/K. Gray et al., "Reimbursing Family/Friends for Home Care: A Demonstration Project," paper presented at the Gerontological Society 33rd Annual Scientific Meeting, San Diego, California, November 23, 1980, p. 2.

10/U.S. Department of Health and Human Services, Office of the Inspector General, "Service Delivery Assessment on Long-Term Care, draft report, Washington, D.C., n.d., p. 9.

11/Health Care Financing Administration, Responsibility of Families for Their Severely Disabled Elders, HCFA 18-P 9703811-01 (Washington, D.C.: 1980), p. 41.

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14/Kentucky, House of Representatives, House Bill Number 16, State Legislature Regular Session (Frankfort, Ky.: January 5, 1982), p. 3.

15/Maryland, Office on Aging, Report to the General Assembly on the Family Support Demonstration Program (Baltimore, Md.: August 31, 1981), pp. 17-20.

16/U.S. Department of Health and Human Services, The Need for Long-Term Care--Information and Issues: A Chartbook of the Federal Council on the Aging, DHHS OHDS 81-20704 (Washington, D.C.: n.d.), p. 58.

17/U.S. General Accounting Office, Improved Knowledge Base Would Be Helpful in Reaching Policy Decisions on Providing Long-Term, In-Home Services for the Elderly, HRD-82-4 (Washington, D.C.: October 26, 1981), p. 1.

18/Steinitz, p. 8.

19/U.S. General Accounting Office, Tax Expenditures, pp. 2 and 26.

20/See, for example, Beth J. Soldo, Supply of Informal Care Services: Variations and Effects on Service Utilization Patterns (Washington, D.C.: The Urban Institute, January 1982), pp. 13-17, and Steinitz, pp. 6-9.

21/Congressional Budget Office, Cost Estimate for the Community Home Health Services Act S. 234 (Washington, D.C.: February 19, 1982), p. 10.

22/Ibid., pp. 10-11.

23/Maryland, Office on Aging, and Maryland Office of the Comptroller, Report to the General Assembly: Tax Credits to Families Who Care for Elderly Relatives (Baltimore, Md.: September 1977), p. 8.

24/U.S. General Accounting Office, "Statement of Harry S. Havens, Assistant Comptroller General, Before the Committee on Rules, House of Representatives, Proposed Controls of Tax Expenditures," Washington, D.C., December 9, 1981, p. 4.

25/Congressional Budget Office, Tax Expenditures, pp. 50-54.

26/U.S. General Accounting Office, "Statement," p. 6.

27/Congressional Budget Office, Tax Expenditures, p. 53.

28/U.S. General Accounting Office, Studies on Effectiveness of Energy Tax Incentives are Inconclusive, EMD-82-20 (Washington, D.C.: March 11, 1982).

29/Ibid., p. 4.

OREGON DEPARTMENT
OF REVENUE

CREDIT FOR HOME CARE OF AN ELDERLY PERSON

YOUR LAST NAME	YOUR FIRST NAME & INITIAL (If joint return, also give spouse's name & initial)	YOUR SOC. SEC. NO.
PRESENT HOME ADDRESS		SPOUSE'S SOC. SEC. NO.

GENERAL INSTRUCTIONS

The Department of Human Resources must certify the person you cared for. To have this done, fill out Part I of this form. Then send it to: Department of Human Resources, Office of Elderly Affairs, 772 Commercial St. S.E., Salem, OR 97310. The form will be returned to you showing whether the elderly person is certified. If the elderly person is certified, fill out Part II on the back of this form. NOTE: To qualify for the credit your household income must be less than $17,500 AND the elderly person must have household income of $7,500 or less.

PART I

The questions below are about the person you supported.

1. Elderly person's name ______ Birthdate ______ Social Security Number ______

2. Did the person stay in a nursing home or mental institution during the year? ☐ Yes ☐ No
If yes, list the dates ______

3. Did the person receive services from Oregon Project Independence during the year? ☐ Yes ☐ No
If yes, list the dates ______

4. Did the person receive any medical assistance from Adult and Family Services during the year? ☐ Yes ☐ No
If yes, list the dates ______

5. Check any of the seven conditions which existed during the year for the elderly person:

A. Problems with communication. These include severely limited vision, hearing, speaking or ability to identify oneself to others. ☐ A

B. Problems with mobility. These include having great difficulty in traveling inside or outside the home even with a cane, walker or wheelchair. ☐ B

C. Problems with managing household and nutrition. These include having great difficulty in doing housekeeping, shopping or following a special diet. ☐ C

D. Problems with maintaining personal independence or relationships. These include great difficulty in handling changes, personal problems and emotional situations. It also includes great difficulties with friends and living arrangements. ☐ D

E. Problems with managing money. These include being unable to write checks, pay bills or keep expenses within income. ☐ E

F. Problems with health. These include severe medical problems requiring regular visits from a doctor or nurse. It also includes being unable to take prescribed medicine. ☐ F

G. Problems caring for self. These include great difficulty in bathing, dressing or going to the bathroom. ☐ G

6. Based on the condition(s) you checked above, would the elderly person normally be placed in a nursing home? ☐ Yes ☐ No
If yes, during which months did the condition(s) exist? ______

I certify that the above questions were answered truthfully to the best of my knowledge. ______
TAXPAYER'S SIGNATURE

FOR OFFICIAL USE ONLY

CERTIFIED:	☐ NOT CERTIFIED Reason:
☐ Total tax year 19____	
☐ Partial tax year 19____	AUTHORIZED SIGNATURE
Dates: ______	

150-101-024 (10-80)

ENCLOSURE II

PART II

HOUSEHOLD INCOME

List your household income and the household income of the elderly person you cared for in the space below. Household income is the taxable and nontaxable income of a husband and wife. The full-year resident tax packet has more information on household income. See the Homeowner and Renter Refund Form (Form 70R) instructions.

NOTE: The support you provided for the elderly person is considered a gift. The amount you paid over $500 must be included in the elderly person's household income. Enter it on Line 8.

TYPE OF INCOME	YOUR HOUSEHOLD INCOME	ELDERLY PERSON'S HOUSEHOLD INCOME
1. Wages, salaries and other pay for work	1.	1.
2. Interest, dividends (total taxable & nontaxable)	2.	2.
3. Business net income (loss limited to $1,000)	3.	3.
4. Total gain on property sales (loss limited to $1,000)	4.	4.
5. Social Security, SSI and Railroad Retirement	5.	5.
6. Pensions, annuity (taxable & nontaxable)	6.	6.
7. Adult & Family Services (Welfare)	7.	7.
8. Gifts and grants over $500	8.	8.
9. Other (Specify) ________	9.	9.
10. TOTAL HOUSEHOLD INCOME	10.	10.

If your household income is $17,500 or more OR if the elderly person's household income is more than $7,500, you are not eligible for the credit.

YOUR CREDIT

11. You may claim food, clothing, medical and transportation expenses you paid or incurred for the elderly person. The expenses must have been paid or incurred during the period certified by the Department of Human Resources. Amounts you paid for lodging don't qualify. Subtract any reimbursement from insurance or from the elderly person when you figure the costs you paid.

A. Food (includes purchase and preparation) . . . . $________

B. Clothing (includes purchase, cleaning and repairing) . . . . $________

C. Medical care (includes doctor fees, medicine, special equipment, etc.) . . . . . $________

D. Transportation (includes transportation for medical and personal needs) . . . . $________

12. Total expenses paid . . . . 12. ________

13. Times 8 percent . . . . 13. x .08

14. Line 12 multiplied by Line 13 . . . . 14. ________

15. Maximum credit 15. 250

16. Allowable credit (lesser of Line 14 or Line 15) . . . . 16. ________

ATTACH THIS FORM TO YOUR OREGON INCOME TAX RETURN WITH THIS SIDE FACING THE FRONT.

150-101-024 (Back) (10-80)

(973562)

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