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Tax Credits for Family Caregivers

This policy brief summarizes a detailed report available on our website about a possible state tax credit for adults who provide care for their elderly parents or relatives (family caregivers).

Family caregivers continue to be the primary source of long-term caregiving for American elders and their unpaid work makes a valuable contribution to society and the economy. In the United States, family caregivers provide an estimated 80 percent of care for older adults (Curry et al., 2006: 166). Family caregiving touches a huge segment of the population. An estimated 33 million Americans provide unpaid care to an elderly adult (McKune et al 2006). That's more than 1 in 5 adults in the country providing or receiving care.

Caregiving imposes considerable direct and indirect financial costs on caregivers and their families, including medical services, medical devices and drugs not covered by the insurance, services and renovations for vehicles and home, supplemental income, food, clothing, and personal items for the elderly, lost wages, job insecurity, limited career paths, reduced retirement savings, and foregone health insurance. Some research shows that the typical individual who takes on a caregiving role reduces his or her time at work by about 460 hours per year. The lost work hours due to caregiving is estimated to reduce an average female's wealth by $659,139 over her lifetime.

Caregiving presents significant costs to governments and employers. For example, many caregivers are in precarious financial situations - making them or their care recipients likely claimants for Medicaid or financial assistance. Because caregiving may conflict with caregivers' employment potential, it may generate productivity losses for the economy as a whole.

Key Findings

- The value of the tax credit to individuals would be small, relative to the financial burden borne by family caregivers, and relative to the subsidy caregivers report they would need to improve their situation.
- Employers, who currently bear significant costs in the form of lost workplace productivity by family caregivers, would experience substantial benefits from a caregiver tax credit, because families would use a portion of the credit to purchase home based care.
- The additional home care purchased by family caregivers would spur and require a significant growth in the professional home care industry.
- Overall, the proposed tax credit would produce positive net benefits for Hawaii, primarily because of the benefit it provides to employers.

The aging of the U.S. population brings with it a decline in the share of the population who are gainfully employed, and this means that the economic burdens of caregiving are likely to grow in importance in the coming decades.

Variations of tax deductions and credits have been offered in about half the U.S. states. Dependent Care Tax Credits are limited to direct caregiving expenses, such as medical services, food, and clothing. Dependent Care Tax Credits are thus not available to offset the significant indirect expenses borne by caregivers, such as lost wages. Caregiver Tax Credits are more flexible and available to offset both direct and indirect expenses.

To develop a better understanding of the likely consequences of introducing a state income tax credit for caregivers in Hawaii, the Family Caregiver Needs Assessment conducted a stratified random telephone survey of 600 Hawaii family members caring for an older adult in 2007.

On average, Hawaii caregivers report spending 22.0 hours per week caring for their parents, bearing $11,656 in expenses, and needing a financial boost of $5,631 to "improve their financial situation and state of mind."

Surveyed family caregivers expressed an intention to save 39.9% of a hypothetical $1000 tax credit. They would spend 37.5% on personal expenses, and spend the remaining 22.6% on professional home care or adult day care. It remains an open question whether these survey response intentions would be carried out by caregivers.

In conjunction with previous estimates of caregiver eligibility for a tax credit and current survey responses about income, we estimate that the proposed tax credit would redistribute $31.5 million in Hawaii tax revenue.

Assuming the current long term care professional workforce in Hawaii has no spare capacity, the home care labor market in Hawaii would need to expand by an estimated 9.1% to fill the increased demand induced by a caregiver tax credit.

Based on previous estimates that employers of family caregivers bear an average annual cost of $2,110 in lost productivity, the report estimates that the professional care purchases intended by family caregivers would provide a substantial net benefit to the Hawaii economy, in the form of improved workplace performance of those people who juggle a job and caregiving responsibilities. The report estimates that employer costs can be reduced 1 or 2%. That is only between $20 and $35 per week per employee. But aggregated across an estimated 25,888 family caregivers who juggle a job alongside their caregiving responsibilities, it provides an additional net benefit to the Hawaii economy between $500 thousand and $1 million, annually.

Family caregiving is a special experience engaged by many Hawaii residents. It requires very significant professional and economic sacrifices, and it presents substantial costs for government and the private sector. A tax credit for family caregivers would generate more benefits than the costs it would impose. Most of the demonstrable benefit comes in the form of reductions in the costs that Hawaii employers bear while substantial numbers of their employees juggle their jobs alongside family caregiving responsibilities.

About the Author

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A copy of this Policy Brief and the full Report on which it is based can be found at www.publicpolicycenter.hawaii.edu/reports.html