# Department of Fiscal Services
Maryland General Assembly

## FISCAL NOTE

Senate Bill 77 (Senator Hollinger)
Budget and Taxation

**Income Tax - Subtraction Modification for Long-Term Care Insurance Premiums**

This bill creates a subtraction modification for the individual income tax of the amounts paid by an individual as premiums for long-term care insurance. If an employer makes such payments, the individual can claim the subtraction only if the amount is included in the individual's federal adjusted gross income (FAGI). If the individual itemizes deductions, the subtraction may not exceed 7.5% of the individual's FAGI.

This bill is effective beginning July 1, 1996, and applies to all taxable years beginning after December 31, 1995.

## Fiscal Summary

**State Effect:** General fund revenues could decline by $5.7 million in FY 1997, increasing by about 15.5% annually in the out-years. Expenditures are not affected.

| ($ in millions) | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 |
|---|---|---|---|---|---|
| GF Revenues | ($5.722) | ($6.609) | ($7.633) | ($8.816) | ($10.183) |
| GF Expenditures | 0 | 0 | 0 | 0 | 0 |
| Net Effect | ($5.722) | ($6.609) | ($7.633) | ($8.816) | ($10.183) |

*Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds*

**Local Effect:** Local governments will lose approximately $3.1 million in FY 1997. Expenditures are not affected.

## Fiscal Analysis

**State Revenues:** General fund revenues could decline by $5.7 million in fiscal 1997 based on the following facts and assumptions:

- o 68,970 long-term care policies will be in effect in Maryland in 1996;
- o the number of policies in effect grows by 10% per year;
- o the average annual premium will be $1,660 in 1996; and
- o the average annual premium will increase by 5% per year.

Total subtractions in 1996 will amount to $114.4 million. At the top marginal rate of 5%, the resulting revenue loss is $5.7 million in fiscal 1997, when returns for tax year 1996 are filed. The combined effect of the above growth rates is a loss increasing 15.5% per year.

**State Expenditures:** Any increase in administrative expenditures can be absorbed within existing budgeted resources.

**Local Revenues:** Local governments will lose piggyback revenues of about 54% of the State loss in each fiscal year. In fiscal 1997, the loss could total $3.1 million.

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**Information Source(s):** Office of the Comptroller (Revenue Administration Division), Office on Aging, Health Insurance Association of America, Department of Fiscal Services

**Fiscal Note History:** First Reader - January 18, 1996
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