HB 1295

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1295 (Delegate Mizeur)

Health and Government Operations and
Ways and Means

Kids First Coverage Incentive Act

This bill prohibits a taxpayer from claiming a State income tax exemption for a dependent child unless the child had specified health care coverage. The bill also repeals the June 30, 2011 termination date for statutory provisions that require (1) taxpayers to report on their income tax return the presence or absence of health care coverage for each dependent child for whom an exemption is claimed; and (2) the Comptroller to send Medicaid and Maryland Children's Health Program (MCHP) applications to specified taxpayers.

The bill takes effect October 1, 2009, with the exception of the tax exemption prohibition, which takes effect January 1, 2012, and applies to all tax years beginning with tax year 2012.

Fiscal Summary

State Effect: To the extent exemption deductions are disallowed, income tax revenues will increase by a potentially significant amount beginning in FY 2013. General fund expenditures for the Comptroller's Office increase by $182,700 in FY 2011 to implement and administer the bill. Future years reflect inflation and other specified assumptions. To the extent enrollment in Medicaid and MCHP increases under the bill, Medicaid expenditures (50% general funds, 50% federal funds) increase by a significant amount beginning in FY 2011.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	$0	$0	$0	-	-
GF Expenditure	$0	$182,700	$156,800	$262,100	$225,800
GF/FF Exp.	$0	-	-	-	-
Net Effect	$0	($182,700)	($156,800)	($262,100)	($225,800)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: To the extent exemption deductions are disallowed beginning in FY 2013, local government revenues increase by an average of 3.0% of the disallowed amounts.

Small Business Effect: None.

Analysis

Bill Summary: The bill repeals the prohibition against penalizing taxpayers for not indicating on their tax forms the presence or absence of health care coverage for each dependent child for whom an exemption is claimed or for providing information that is inaccurate. Instead, a taxpayer may not deduct an exemption for a dependent child unless the dependent child had health care coverage (1) for at least six months of the taxable year; and (2) on December 31 of the taxable year.

The Comptroller must provide exceptions for individuals (1) just entering the workforce; (2) recently moving into the State; (3) unable to obtain health care coverage for the dependent child under specified circumstances; (4) who object to health insurance on religious grounds; and (5) whose federal adjusted gross income (FAGI) for the taxable year is between 300% and 500% of federal poverty guidelines (FPG).

The Comptroller must publicize the requirements of the bill to provide an adequate opportunity for taxpayers to obtain health care coverage for their dependent children.

Current Law/Background: An individual with FAGI up to $100,000 may deduct an exemption of $3,200 for each dependent. Individuals with FAGI over $100,000 and married couples filing a joint return or an individual filing as a head of household or surviving spouse with FAGI over $150,000 are allowed to deduct between $600 and $2,400 per dependent based on FAGI.

Kids First Act: Chapter 692 of 2008 requires taxpayers to indicate on their income tax returns whether each dependent child for whom an exemption is claimed has health care coverage. For tax years 2008 and 2009, the Comptroller must send taxpayers with dependent children and incomes up to the highest income eligibility standard for Medicaid or MCHP (currently 300% FPG) notices that their dependent children may be eligible for Medicaid or MCHP, including how to enroll in the programs. Chapter 692 prohibits a taxpayer from being penalized for not providing this information or providing information that is inaccurate. Chapter 692 terminates June 30, 2011.

Under Chapter 692, DHMH has mailed more than 150,000 letters to parents with incomes up to 116% FPG and nearly 300,000 letters to families with children with household incomes up to 300% FPG that they may be eligible for Medicaid or MCHP.

Chapter 7 of the 2007 special session expanded Medicaid eligibility, effective July 1, 2008, to parents and caretaker relatives with dependent children living in their homes and annual household incomes up to 116% FPG.

Maryland Children's Health Program: Eligibility for MCHP currently extends to individuals younger than age 19 with family incomes up to 300% FPG. Children in families with incomes above 200% but at or below 300% FPG are enrolled in the MCHP Premium Plan. These families pay a family contribution toward the cost of the program equal to 2% of the annual income for (1) a family of two at 200% FPG (about $576 per year), for families earning up to 250% FPG; or (2) a family of two at 250% FPG (about $720 per year), for families earning up to 300% FPG. Individuals who have been eligible for employer-sponsored health insurance in the previous six months are ineligible for MCHP.

Uninsured Children in Maryland: According to the Maryland Health Care Commission, in 2006-2007, 150,000 Maryland children did not have health insurance.

State Revenues: To the extent exemptions for dependent children are disallowed under the bill, general fund revenues will increase by a potentially significant amount beginning in fiscal 2013 due to increased State income tax revenues. The number of exemptions that could be disallowed each year is unknown. This figure depends on the number of taxpayers with a dependent child that did not have health care coverage for at least six months of the taxable year and on December 31 of the taxable year, and the number of individuals who will be exempt under the bill. The general fund revenue increase cannot be reliably estimated because it depends on the number of exemption deductions disallowed under the bill, the taxable income of each taxpayer, and the rate at which the income subtracted would otherwise have been taxed.

For illustrative purposes only, for each exemption of $3,200 disallowed that otherwise would have been taxed at a rate of 4.75%, State income tax revenues increase by $152. (Local income tax revenues increase by approximately $96.) Legislative Services estimates that as many as 23,648 deductions may be disallowed under the bill for tax year 2012. This estimate is based on the following assumptions:

- there will 120,865 uninsured children in Maryland with family incomes at or below 300% FPG or above 500% FPG (taxpayers with FAGI between 301% and 500% FPG are exempt under the bill);
- of those 120,865 uninsured children, 84,080 will have family incomes below 200% FPG, 21,020 will have family incomes between 200% and 300% FPG, and 15,765 will have family incomes above 500% FPG;

- 100% of children with family incomes below 200% FPG will be enrolled in the Medicaid or MCHP program as there is no premium required at that income level;
- only 50% of children with family incomes between 200% and 300% FPG (10,510) will be enrolled in the MCHP Premium Plan as annual premiums ($576 to $720) are greater than the value of the income tax deduction ($152);
- 26,275 children will either not be enrolled in MHCP despite their eligibility or have family incomes over 500% FPG;
- 10% of the taxpayers associated with these 26,275 children (2,627) will be eligible for another exception as specified under the bill; and
- taxpayers associated with the remaining 23,648 children may have their deduction disallowed in tax year 2012.

Under these assumptions, income tax revenues could increase by as much as $3.6 million in fiscal 2013. (Local income tax revenues could increase by as much as $2.3 million.)

State Expenditures: No fiscal impact is anticipated in fiscal 2010 as the Comptroller is already required to mail applications to certain taxpayers following tax year 2009.

In fiscal 2011, general fund expenditures for the Comptroller's Office increase by $182,675 to mail Medicaid and MCHP applications to taxpayers with FAGI up to 300% FPG who report on their 2010 tax return that one or more dependent children do not have health care coverage. This estimate assumes that (1) 30% of these taxpayers will report that one or more dependent children do not have health care coverage; and (2) applications will be mailed beginning in April 2011 following receipt of tax year 2010 returns.

In fiscal 2012, general fund expenditures for the Comptroller's Office increase by $156,826 to mail Medicaid and MCHP applications to taxpayers with FAGI up to 300% FPG who report on their 2011 tax return that one or more dependent children do not have health care coverage. This estimate assumes that (1) 25% of these taxpayers will report that one or more dependent children do not have health care coverage; and (2) applications will be mailed beginning in April 2012 following receipt of tax year 2011 returns. Publicity of the bill's requirements can be handled with existing budgeted resources using the income tax booklet, other mailings the Comptroller is already required to make, and the Comptroller's web site. To the extent additional publicity is required, additional one-time general fund expenditures of $250,000 will be required.

In fiscal 2013, general fund expenditures for the Comptroller's Office increase by $262,149. This estimate reflects the cost to (1) mail Medicaid and MCHP applications to taxpayers with FAGI up to 300% FPG who report on their 2012 tax return that one or more dependent children do not have health care coverage; (2) hire one revenue examiner to audit returns; and (3) perform one-time-only alterations to tax year 2012 income tax forms to collect information about individuals exempt under the bill. The Comptroller is already required (under Chapter 692 of 2008) to alter tax forms beginning in tax year 2008 to collect information about health care coverage of dependent children. This estimate assumes that (1) 25% of taxpayers will report that one or more dependent children do not have health care coverage; and (2) applications will be mailed beginning in April 2012 following receipt of tax year 2011 returns. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Mail Medicaid and MCHP Applications	$161,562
Salary and Fringe Benefits	55,975
One-time-only Tax Form Alterations	40,000
Other Operating Expenses	4,612
Total FY 2013 State Expenditures	**$262,149**

Future year expenditures reflect a full salary with 4.4% annual increases, 3% employee turnover, 1% annual increases in ongoing operating expenses, and 2% annual increases in mailing costs for Medicaid and MCHP applications. Future year expenditures also assume that in subsequent tax years, 25% of taxpayers will report that one or more dependent children do not have health care coverage.

To the extent the bill results in increased enrollment in Medicaid and MCHP, DHMH expenditures (50% general funds, 50% federal funds for Medicaid and 35% general funds, 65% federal funds for MCHP) could increase beginning in fiscal 2011. Department of Human Resources expenditures (50% general funds, 50% federal funds) could also increase to perform intake of additional Medicaid and MCHP enrollees. The extent of that increase cannot be reliably estimated at this time.

For illustrative purposes only, the average annual cost to cover a child in Medicaid or MCHP is estimated to be $2,228 in fiscal 2011; therefore, for every 1,000 new enrollees, total Medicaid expenditures could increase by $2.2 million, not including administrative expenses. Medicaid and MCHP costs are expected to increase by 5% annually in future years. Conversely, increases in the number of insured children could reduce uncompensated care costs in the State.

Additional Comments: Exhibit 1 displays the 2009 federal poverty guidelines by family size for 300% and 500% FPG.

Exhibit 1
2009 Federal Poverty Guidelines

Family Size	300% FPG	500% FPG
1	$32,490	$54,150
2	43,710	72,850
3	54,930	91,550
4	66,150	110,250
5	77,370	128,950

Additional Information

Prior Introductions: *As introduced*, HB 1391 of 2008 (Chapter 692 of 2008) would have prohibited a taxpayer from claiming a State income tax deduction for a dependent child unless the child had health care coverage on December 31 of the taxable year and did not have a break in coverage of 63 days or more during the taxable year. This provision was removed by the House Health and Government Operations Committee.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Comptroller's Office, Department of Legislative Services

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ncs/mwc

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