SB 577

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 577 (Senator Garagiola, *et al.*)
Finance and Budget and Taxation

Maryland Covers All Children Act of 2009

This bill requires all residents age 18 and younger to obtain and maintain creditable health insurance coverage, by January 1, 2010. For tax years 2011 through 2013, a taxpayer may not claim the full State income tax deduction for a dependent child unless the child had specified health care coverage. The bill also establishes a Maryland Children's Health Program (MCHP) buy-in option for children younger than age 19 with household incomes above 300% of federal poverty guidelines (FPG). Enrollees must pay an annual family contribution based on full benefit costs.

The bill takes effect January 1, 2010, with the exception of the tax provisions which take effect January 1, 2011, and apply to tax years 2011 through 2013 only.

Fiscal Summary

State Effect: To the extent exemption deductions are reduced, income tax revenues increase by a potentially minimal amount beginning in FY 2012. General fund expenditures for the Comptroller's Office increase by $250,000 in FY 2011 to publicize the bill's requirements and $76,100 in FY 2012 to audit returns and perform one-time-only tax form alterations. Future years reflect annualization and inflation. The bill's reporting requirements can be handled with existing budgeted resources.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	$0	$0	-	-	-
GF Expenditure	$0	$250,000	$76,100	$38,700	$40,400
Net Effect	$0	($250,000)	($76,100)	($38,700)	($40,400)

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 2012, local government revenues increase by an average of 3.0% of the disallowed amounts.

Small Business Effect: None.

Analysis

Bill Summary: An individual is subject to a $25 reduction in the State income tax exemption amount for a dependent child unless the dependent child (1) had health care coverage on December 31 of the taxable year; and (2) did not have a break in coverage of 63 days or more during the taxable year. For a married couple filing a joint return, the reduction is $50. The exemption reduction is applicable to tax years 2011 through 2013 only. The penalty does not apply to a nonresident dependent. The Comptroller must provide exceptions for individuals or married couples who object to health insurance on religious grounds.

The bill also makes permanent a provision of law enacted by Chapter 692 of 2008, which requires taxpayers to report on the income tax return the presence or absence of health care coverage for each dependent child for whom an exemption is claimed. This provision was scheduled to terminate effective June 30, 2011.

Uncodified language in the bill requires the Maryland Health Care Commission (MHCC), in consultation with the Department of Health and Mental Hygiene (DHMH) and the Maryland Insurance Administration, to submit an initial report by January 1, 2011, and a final report by January 1, 2013, on health care coverage of children in the State. DHMH and 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 and claim the full deduction.

Current Law/Background: An individual with a federal adjusted gross income (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 return 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 a dependent child and incomes up to the highest income eligibility standard for Medicaid or MCHP (currently 300% FPG) a notice that their dependent child 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 a dependent child living in the home and annual household income 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 $583 per year), for families earning up to 250% FPG; or (2) a family of two at 250% FPG (about $729 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 MHCC, in 2006-2007, 150,000 Maryland children did not have health insurance. Of these 150,000 uninsured children, 40,000 (27%) had incomes over 300% FPG.

Other States: New Jersey recently enacted a law that requires all children to have health insurance by July 2009. New Jersey's Children's Health Insurance Program covers children up to 350% FPG and allows parents with incomes above 350% FPG to buy into the program at a cost of $137 per month for one child, $274 per month for two children, and $411 per month for three or more children. Pennsylvania, which covers children with family incomes up to 300% FPG through its Children's Health Insurance Program, also allows families with incomes above maximum eligibility levels to buy into the program, but at full cost.

State Revenues: To the extent exemptions for dependent children are reduced under the bill, general fund revenues will increase beginning in fiscal 2012 due to increased State income tax revenues. The number of exemptions that could be reduced each year is unknown. This figure depends on the number of taxpayers with a dependent child that did not have health care coverage on December 31 of the taxable year or had a lapse in health care coverage of 63 days or more during the preceding tax year. The general fund revenue increase cannot be reliably estimated because it depends on the number of exemptions reduced under the bill and the rate at which the income subtracted would otherwise have been taxed.

For illustrative purposes only, for each exemption reduced by $25 that otherwise would have been taxed at a rate of 4.75%, State income tax revenues will increase by $1.19.

(Local income tax revenues would increase by approximately $0.75.) The estimated total number of uninsured children in Maryland in 2011 will be 156,000. If exemptions for every uninsured child were reduced under this scenario, revenues could increase by as much as $185,250 in fiscal 2012. (Local income tax revenues could increase by as much as $117,000.) This assumes that a tax return is filed for each dependent child and the disallowed portion of the exemption results in a change in tax liability.

State Expenditures: General fund expenditures for the Comptroller's Office increase by $250,000 in fiscal 2011 to publicize the bill's requirements in advance of the tax penalty, which begins in tax year 2011. Both DHMH and the Comptroller are required to publicize this information, but costs are assigned to the Comptroller as failure to obtain health care coverage for dependent children results in a tax penalty.

General fund expenditures for the Comptroller's Office increase by $76,134 in fiscal 2012. This estimate reflects the cost of hiring one contractual revenue examiner to audit returns and a one-time-only expense to alter tax year 2011 income tax forms to collect information about individuals who object to health insurance on religious grounds. The Comptroller is already required (under Chapter 692 of 2008) to alter tax year 2008 income tax forms to collect information about health care coverage of dependent children. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1
Salary and Fringe Benefits	$36,549
One-time-only Tax Form Alterations	35,000
Other Operating Expenses	4,585
Total FY 2012 State Expenditures	**$76,134**

Future year expenditures reflect a full salary with 4.4% annual increases, 6.8% employee turnover, and 1% annual increases in ongoing operating expenses.

The cost of the MCHP buy-in option would be paid by enrollees, as specified under the bill. DHMH indicates that any administrative expenses incurred for enrollment and premium collection would be passed on to enrollees through the annual family contribution. No federal matching funds would be available for this population.

Experience with the MCHP Premium Plan for families with incomes between 200% and 300% FPG suggests that enrollment in the buy-in option, which requires an annual family contribution equal to the full cost of the program, may be minimal. The premium plan has been available since 2000 and current enrollment is only 11,000.

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

Exhibit 1
2009 Federal Poverty Guidelines

Family Size	300% FPG
1	$32,490
2	43,710
3	54,930
4	66,150
5	77,370

Additional Information

Prior Introductions: As introduced, HB 1391 of 2008 (now Chapter 692 of 2008) would have prohibited a taxpayer from deducting an exemption 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 in the taxable year.

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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