

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1373
 Ways and Means

(Delegate Mautz, *et al.*)

Income Tax - Subtraction Modification - Private Health Insurance Expenses

This bill creates a State income tax subtraction modification for the costs of specified private health insurance. The subtraction modification may only be claimed if a health insurance premium is subject to federal income tax and does not include health insurance premiums for coverage acquired under (1) Medicare; (2) the Maryland Health Benefit Exchange if the individual receives a tax credit or reduced premium based on income; or (3) an employee benefit plan if the taxpayer is a retiree.

The bill takes effect July 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$22.6 million in FY 2017 due to subtraction modifications claimed against the personal income tax. Future year revenue decreases reflect projected amounts of eligible health insurance costs. General fund expenditures increase by \$52,000 in FY 2017 due to one-time implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$22.6)	(\$23.7)	(\$24.9)	(\$26.1)	(\$27.4)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
Net Effect	(\$22.6)	(\$23.7)	(\$24.9)	(\$26.1)	(\$27.4)

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

Local Effect: Local revenues decrease by \$14.7 million in FY 2017 and by \$17.9 million in FY 2021. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: The cost of employment-based health insurance is generally excluded from an employee's gross income when determining federal income tax liability. The exclusion applies to both single and family coverage, which includes the employee's spouse and dependents. Any employer-paid portion is generally deducted by the employer as a business expense.

Costs for insurance purchased by an individual and not part of an employer plan are generally included in an individual's gross income for income tax purposes. Under the federal medical expenses deduction, taxpayers who itemize may deduct the cost of health insurance premiums paid in the taxable year, including for the individual's spouse and dependents, to the extent the taxpayer's total qualified medical expenses exceed 10.0% of adjusted gross income (7.5% if the individual or spouse is age 65 or older). Self-employed individuals may generally deduct 100% of eligible health insurance costs, even if they do not itemize deductions.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2016. As a result, general fund revenues will decrease by an estimated \$22.6 million in fiscal 2017. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1
State and Local Revenue Impacts
Fiscal 2017-2021
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
State	(\$22.6)	(\$23.7)	(\$24.9)	(\$26.1)	(\$27.4)
Local	(14.7)	(15.5)	(16.2)	(17.1)	(17.9)
Total Revenues	(\$37.3)	(\$39.2)	(\$41.1)	(\$43.2)	(\$45.3)

This estimate is based on the following facts and assumptions:

- based on data from the Maryland Insurance Administration, an estimated 290,000 individuals were covered through nonemployer health insurance plans in calendar 2015, including those insured through the Maryland Health Benefit Exchange;
- about 93,000 of the individuals who were enrolled through the Exchange received either a tax credit or premium assistance;
- the U.S. Congressional Budget Office estimates that nonemployer health insurance premiums averaged about \$2,780 per enrollee in calendar 2012;

- 15% of eligible health insurance costs are already deducted under the federal income tax or are otherwise claimed on a nontaxable return; and
- future year amounts increase by 5% annually.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$52,000 in fiscal 2017 to add the new subtraction modification. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Local Revenues: Local income tax revenues will decrease as a result of subtraction modifications claimed against the personal income tax. Local revenues will decrease by \$14.7 million in fiscal 2017 and by \$17.9 million in fiscal 2021, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, U.S. Congressional Budget Office, Maryland Insurance Administration, Internal Revenue Service, Department of Legislative Services

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mel/jrb

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