Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 173 (Senator Manno, *et al.*)
Budget and Taxation

Commission on Access to Tax-Preferred Health and Childcare Savings Accounts for All Marylanders

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This bill establishes the Commission on Access to Tax-Preferred Health and Childcare Savings Accounts for All Marylanders, staffed by the Department of Legislative Services (DLS). The bill specifies the membership of the commission, and the President of the Senate and the Speaker of the House must designate the chair of the commission. A member of the commission may not receive compensation but is entitled to reimbursement for expenses under the standard State travel regulations, as provided in the State budget. The commission must make recommendations for legislation that would improve access to tax-preferred savings accounts for health and child care expenses for Maryland citizens and individuals employed in the State, and it must report its findings and recommendations to the Governor and General Assembly by January 1, 2018.

The bill takes effect June 1, 2017, and terminates June 30, 2018.

Fiscal Summary

State Effect: DLS can provide staff support to the commission with existing budgeted resources. Any expense reimbursements for commission members are presumed to be minimal and absorbable within existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The commission must study, for Maryland citizens and individuals employed in the State, (1) the availability of tax-preferred savings accounts for health and child care expenses; (2) participation rates in employer-provided tax-preferred savings accounts for health and child care expenses; and (3) the availability of tax-preferred savings accounts for health and child care expenses for those who do not have access to such savings accounts through their employment.

Current Law/Background: A flexible savings arrangement (FSA) may be offered for assistance with dependent care and adoption as well as reimbursements for medical care. Employees can set aside up to $5,000 per year of their salary in an FSA to pay for dependent care expenses. For tax year 2017, employees can contribute $2,600 a year to a health FSA, and distributions from a health FSA must be for qualified medical expenses. The money set aside in an FSA is not subject to income or payroll taxes. Generally, contributions do not roll over from year to year and are "use it or lose it."

According to the U.S. Bureau of Labor Statistics, in 2016, 55% of state and local government workers and 37% of private industry workers had access to a dependent care FSA. In 2016, 61% of state and local government workers and 40% of private industry workers had access to a health FSA. The likelihood of access varies based on industry and income level, with lower earners less likely to have access to an FSA than higher earners. For example, 58% of private industry workers in management, professional, and related occupations had access to a dependent care FSA, while 19% of private industry workers in service occupations had access.

During the 2016 interim, the Joint Committee on Children, Youth, and Families reviewed issues related to child care in Maryland. At the joint committee's request, DLS reviewed the tax incentives available to taxpayers to assist with the costs of raising children, and this review resulted in the report Tax Incentives for Child and Dependent Care Expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management; Internal Revenue Service; U.S. Bureau of Labor Statistics; Department of Legislative Services

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Analysis by: Heather N. Ruby

Direct Inquiries to:
(410) 946-5510
(301) 970-5510