Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 743 (Delegate Hixson, et al.)
Ways and Means

Health Care Savings Accounts

This bill establishes health care savings accounts, contributions to which may be subtracted from income for individual income tax purposes. An individual's employer may make contributions to the account, although such contributions cannot be subtracted from income unless they are included in the individual's federal adjusted gross income. Total contributions for an individual cannot exceed $3,000. If the funds are not used for eligible medical expenses, they must be added back to income if the individual is at least 60 years old, and two times the amount of non-qualifying expenditures must be added to income if the individual is less than 60 years old.

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

Fiscal Summary

State Effect: General fund revenues could decrease substantially. Expenditures would not be affected.

Local Effect: Revenues could decrease as discussed below. Expenditures would not be affected.

Fiscal Analysis

State Revenues: The revenue loss from this bill is indeterminate. It depends on the number of medical savings accounts created and the amounts deposited in the accounts, which cannot be reliably determined at this time. The loss for each $3,000 contributed would be $150, assuming the individual is in the 5% tax bracket.
As a point of information, approximately 6.5% of State employees currently have health care

spending accounts which are provided as part of the employee benefit package. There are approximately 2.4 million employed individuals in the State. If 6.5% of these individuals established a health care savings account and contributed the maximum $3,000, general fund revenues would decline by $23.4 million, less an amount for State employees and others who may already have such accounts. The number of individuals in the State who are currently taking advantage of employer-provided health care spending accounts under current Internal Revenue Service regulations is unknown. Revenues could increase to the extent that non-qualifying distributions are taken by individuals under 60.

Local Revenues: Revenues will decrease by an average of 54.5% of the State loss. If 6.5% of employed individuals in the State establish a health care savings account and contribute the maximum $3,000, the local revenue loss would be $12.75 million.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Budget and Fiscal Planning, Department of Fiscal Services

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