HB 510

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 510 (Delegate Campbell, *et al.*)
Ways and Means

Insurance Premiums Tax - For-Profit Health Maintenance Organizations

This bill imposes an insurance premium tax of 2% on the premiums collected by for-profit health maintenance organizations (HMO).

The bill is applicable to taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: Assuming HMOs will no longer have to pay the corporate income tax, general fund revenues could increase by $19.8 million in FY 1998. Transportation Trust Fund (TTF) revenues could decline by $640,000 in FY 1998. Future year revenues reflect a full year's receipt of tax revenues and growth. General fund expenditures may increase by an indeterminate amount.

(in thousands)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$19,800	$37,800	$40,400	$43,800	$47,100
GF Expenditures	--	--	--	--	--
SF Revenues	($640)	($2,500)	($2,800)	($3,000)	($3,300)
Net Effect	$19,200	$35,300	$37,600	$40,800	$43,800

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

Local Effect: Local revenues could decline an estimated $190,000 in FY 1998 as part of the TTF loss. Expenditures for local jurisdiction employee health benefits may increase by an indeterminate amount.

Small Business Effect: Potential impact on small businesses as discussed below.

Fiscal Analysis

State Revenues: There are currently 22 HMOs operating in Maryland, of which three are nonprofit HMOs. Total premiums collected by all for-profit HMOs in 1995 was $1,727,712,104. Under the bill, a for-profit HMO will be required to file a declaration of estimated tax on or before April 15 of the taxable year, and a quarterly report of estimated tax on or before June 15, September 15, and December 15 after filing the initial declaration. Estimated taxes are based on the previous year's premiums. In addition, a for-profit HMO will be required to pay to the Commissioner of Insurance at least 25% of the estimated premium tax for the full taxable year with each quarterly report. On or before March 15 of the following tax year, a final premium tax report must be filed with the Commissioner together with the final tax payment to correct any discrepancy between estimated and actual taxes. As a result of the quarterly filings, general fund revenues will increase by $21.7 million from premium tax receipts of two quarters in fiscal 1998. Future year premium tax revenues reflect a growth rate of 8%, using 1995 premiums as the base year. A growth rate of 8% in premiums collected by for-profit HMOs was assumed for the following reasons:

- premiums have been rising for for-profit HMOs at a rate of 13% between 1993 and 1994 and 17% between 1994 and 1995, the last time periods for which information is available.

- although the amount of insurance premiums collected in life and health, and property and casualty insurance are generally cyclical, the trend in the health care industry towards managed care may support the continued increase in premiums. The increase, however, is expected to be less than the experience between 1993 and 1995 because some of the recent growth has been in Point-of-Service and Preferred Provider Option plans.

Current State law exempts health insurers from paying a corporate income tax. HMOs, on the other hand, are required to pay the tax. In 1995, for-profit HMOs paid approximately $8.1 million in corporate tax. About 75% of corporate income tax revenue is distributed to the general fund; the remainder is credited to the TTF. The bill is unclear as to whether HMOs will be exempt from corporate taxation. However, assuming that the intent of the bill is to exempt HMOs from paying the corporate tax, the general fund would lose about $1.9 million in fiscal 1998, while the TTF would lose $640,000, which reflects 25% of the estimated corporate tax paid in the early part of the taxable year, 70% of the tax paid in the following tax year, and the remaining 5% paid the year after. The estimated loss in future year revenues reflects an 8% growth rate.

As a result of the corporate tax loss offset, State revenues are projected to increase by $19.2 million in fiscal 1998. If HMOs are not exempt from the corporate income tax pursuant to this bill, the projected increase in general fund revenues is $21.7 million in fiscal 1998 and

$45.2 million in fiscal 1999.

General fund revenues could be further offset by an indeterminate minimal amount from the loss of retaliatory taxes. A retaliatory tax is imposed on the HMO's business in Maryland if the HMO is domiciled in a state that imposes a premium tax on HMOs. Seven states currently impose a premium tax on HMOs - Alabama, Arizona, Connecticut, Iowa, Kansas, Tennessee, and Texas. The extent of the impact cannot be reliably estimated at this time, but it is assumed to be minimal because none of these states are surrounding states to Maryland.

State Expenditures: To the extent that the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, expenditures for the State employee health benefit plan could increase.

Local Revenues: A portion of the local income tax is distributed to local governments through the TTF. Local revenues will decline by 30% of the TTF revenue loss, or $190,000 in fiscal 1998; increasing 8% annually thereafter.

Local Expenditures: Expenditures for local jurisdiction employee health benefits could increase by an indeterminate amount, depending upon the current type of health insurance coverage offered and the number of employees.

Small Business Effect: Health insurance costs for small businesses would increase if they offer health insurance through an HMO. To the extent that the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, self-employed persons and small businesses could face higher health care costs. Alternatively, small businesses could pass an increase in insurance premium costs onto their employees.

Information Source(s): Insurance Administration; Department of Health and Mental Hygiene (Medical Care Policy Administration, Health Care Access and Cost Commission, Health Services Cost Review Commission); Department of Fiscal Services

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