HB 842

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 842 (Delegate Kelly, *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. Only individuals covered by health plans with a deductible of at least $1,000 but not more than $3,000 are eligible to establish an account. 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 the lesser of $3,000 or the deductible for any health plan covering the individual during the tax year. 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 nonqualifying expenditures must be added to income if the individual is less than 60 years old. Except for eligible health care expenses, withdrawals may not be made from the accounts unless 90% of the deductible of the high deductible health care plan remains in the account.

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.

Small Business Effect: Potential meaningful effect on self-employed individuals.

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. Because eligibility is restricted to those with high deductible health plans, participation may not be as great as with current similar plans, reducing the revenue loss accordingly. 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 nonqualifying distributions are taken by individuals under 60.

State Expenditures: The Department of Fiscal Services advises that since tax forms and instructions are updated annually, the form changes resulting from this bill can be absorbed within existing budgeted resources of the Comptroller.

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.

Small Business Effect: This bill could reduce health insurance costs for self-employed individuals by encouraging them to purchase high deductible plans, and by exempting from income taxes the funds contributed to the health care savings accounts. Other small businesses would not be affected since they must provide at least the coverage provided by a comprehensive standard health benefit plan if health benefits are provided.

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

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