

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1026 (Delegate Redmer, *et al.*)
Ways and Means

Income Tax - Credit for Long-Term Care Insurance Premiums

This bill creates a credit against the individual income tax for 5% of the premiums paid for long-term care insurance by an individual for coverage of the individual, the individual's spouse, or the individual's dependent. This credit does not affect the tax treatment of any deduction allowed under current law for long-term care premiums.

This bill is effective July 1, 1997, and applies to all taxable years beginning after December 31, 1996.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated \$5.1 million in FY 1998, increasing by about 16% annually in the out-years.

(\$ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	(5.1)	(5.9)	(6.9)	(8.0)	(9.3)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(5.1)	(5.9)	(6.9)	(8.0)	(9.3)

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

Local Effect: None. This credit is only available against the State individual income tax.

Small Business Effect: Minimal effect on small business as discussed below.

Fiscal Analysis

State Revenues: General fund revenues would decline by \$5.1 million in fiscal 1998 based on the following facts and assumptions:

- ° About 63,000 policies will be purchased by individuals in Maryland in tax year 1997. The average age of these policy holders is 65, and the average cost of these policies is \$1,600.
- ° About 8,975 additional individuals will purchase policies through employer-provided benefits packages in tax year 1997. Employees will pay, on average, 58% of the cost. The average age of these policy holders is about 42, and the average cost of these policies is \$176.
- ° The number of long-term plans issued increases by about 16% per year, but the cost is not expected to increase greatly over the next several years.

Total premiums paid by Maryland taxpayers in 1997 will be about \$102 million. The credit will therefore result in a general fund revenue loss of \$5.1 million. This loss will be realized in fiscal 1998, when 1997 tax returns are filed. The loss in the out-years will increase by about 16% per year, the estimated growth rate of policies. The revenue loss will be greater to the extent that this bill provides an incentive for taxpayers to purchase these policies. Any such effect cannot be estimated at this time, but is expected to be minimal.

State Expenditures: Any increase in administrative expenditures could be absorbed within existing resources.

While this bill could cause more individuals to purchase long-term care policies which could therefore reduce Medicaid expenditures for nursing home or home care, any such effect is long-term and indeterminate. These savings would occur almost entirely in the future, whereas the revenue losses would be realized immediately.

Local Revenues: Assuming the credit can only be claimed against State income taxes, there would be no impact on local revenues.

Small Business Effect: To the extent that this bill causes an increase in the sales of long-term care policies, insurance brokers, agents, and companies would benefit. The incentive effect of this bill cannot reliably be estimated at this time, but is expected to be minimal, leading to a minimal increase in revenues for some insurance brokers, agents and companies. As a point of information, there are about 54,700 licensed agents and 5,200 licensed brokers. At least 60% of these individuals are employed in small businesses.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Maryland Insurance Administration, Health Insurance Association of America, Department of Fiscal Services

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