

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1027 (Delegate Redmer, *et al.*)
Ways and Means

Tax Credit for Employer-Provided Long-Term Care Insurance

This bill creates a tax credit for employers in the amount of 5% of the costs of providing long-term care insurance to employees. The credit may not exceed the lesser of \$5,000 or \$100 for each employee covered by such insurance. The credit can be claimed against the individual and corporate income taxes, the public service company franchise tax, the financial institution franchise tax, and the insurance premium tax. If the full amount of the credit is not used in the year in which it is claimed, the excess can be carried forward for up to five years.

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

Fiscal Summary

State Effect: General and special fund revenues would decline by an estimated \$37,600 in FY 1999, increasing by about 16% annually in the out-years.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	(\$33,000)	(\$39,000)	(\$45,200)	(\$52,400)	(\$60,800)
SF Revenues	(\$4,600)	(\$5,500)	(\$6,400)	(\$7,500)	(\$8,700)
GF Expenditures	0	0	0	0	0
Net Effect	(\$37,600)	(\$44,500)	(\$51,600)	(\$59,900)	(\$69,500)

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

Local Effect: Local revenues will decline by \$1,380 through a reduction of distributions from the Transportation Trust Fund (incorporated into the above special fund loss) in FY 1999.

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

Fiscal Analysis

State Revenues: State revenues would decline by an estimated \$37,600 in fiscal 1999 based on the following facts and assumptions:

- About 10,400 individuals will purchase policies through employer-provided benefits packages in tax year 1998, the first year in which the credit is available. Employers will pay, on average, 42% 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 at about 16% per year, but the cost is not expected to increase significantly over the next several years.
- Half of these policies will be provided through businesses which pay the corporate income tax, and half will be provided through businesses which pay the individual income tax.

Total premiums for policies provided through employers will be \$1,830,000. Employers will pay 42% of this amount, or \$769,000. The credit of 5% would result in a revenue loss of \$38,500, attributable to tax year 1998, assuming that no credits exceed the lesser of \$5,000 or \$100 per employee covered and that the only costs for which a credit is allowed are employer-paid premiums. All the individual income tax loss will be realized in fiscal 1999, when tax year 1998 returns are filed, along with 95% of the loss from credits against the corporate income tax. The remaining loss from the corporate income tax occurs in the next year. The fiscal 1999 loss is estimated at \$37,600.

If half of these credits are claimed against the individual income tax and half against the corporate income tax, general fund revenues would decline by an estimated \$33,000, and Transportation Trust Fund (TTF) revenues would decline by an estimated \$4,600 (about 25% of corporate income tax revenues is distributed to the TTF). Any credits claimed against either of the franchise taxes would result in a loss of general fund revenue.

The loss in the out-years will increase at 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 can 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: Local revenues would decline slightly because 30% of the corporate income tax distribution to the TTF is distributed to local governments.

Small Business Effect: Those small businesses which currently subsidize long-term care insurance for employees will realize a cost reduction of 5%, up to the maximum credit amount. If this bill causes more small businesses to provide long-term care insurance to employees, costs for employee benefits could increase; however, any such increase would be mitigated to some degree by the tax credit.

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 revenue 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), Health Insurance Association of America, Department of Fiscal Services

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