

Department of Legislative Services
 Maryland General Assembly

FISCAL NOTE

House Bill 1045 (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 or the individual's dependents. 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, 1998, and applies to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated \$4.3 million in FY 1999, increasing by about 16% annually in the out-years.

| (\$ in millions) | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 |
|------------------|---------|---------|---------|---------|---------|
| GF Revenues | (\$4.3) | (\$5.0) | (\$5.7) | (\$6.7) | (\$7.7) |
| GF Expenditures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Effect | (\$4.3) | (\$5.0) | (\$5.7) | (\$6.7) | (\$7.7) |

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.

Fiscal Analysis

State Revenues: General fund revenues would decline by \$4.3 million in fiscal 1999 based on the following facts and assumptions:

- About 55,200 policies will be in effect in Maryland in tax year 1998. The average age of these policy holders is 68, and the average cost of these policies is \$1,500.
- About 9,330 additional individuals will hold policies through employer-provided benefits packages in tax year 1998. The average age of these policy holders is much lower than that for individuals purchasing policies on their own, and the average cost of these policies is \$275.
- 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 1998 will be about \$85.4 million. All individuals purchasing policies on their own will receive a \$75 credit. The average credit for policies purchased through employer-sponsored benefits plans will be \$14. Thus, this credit would result in a general fund revenue loss of \$4.3 million. This loss will be realized in fiscal 1999, when 1998 tax returns are filed. The loss in the out-years will increase by about 16% per year, the estimated growth rate of these 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: The Office of the Comptroller would incur one-time computer programming costs of \$49,000 to change the tax processing system to allow for this credit. The Department of Legislative Services advises that economies of scale regarding computer programming changes could be realized, since there will be changes to the income tax process system due to the 1997 income tax reduction which is phased-in through 2002.

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.

In addition, a 1997 report by the Department of Legislative Services concluded that, in order to offset the revenue lost by granting this credit to individuals who are already purchasing or will purchase long-term care policies, sales of long-term care policies would have to increase

by 50% over and above current growth of sales. It is unlikely that a 5% reduction in price (\$75 tax credit applied against a \$1,500 policy) could lead to a 50% increase in policies sold, and it is therefore unlikely that this bill would provide a net benefit to the State, even over the long run.

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates), Health Insurance Association of America, Department of Legislative Services

Fiscal Note History: First Reader - March 3, 1998

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Analysis by: David F. Roose

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710