Department of Legislative Services

Maryland General Assembly

FISCAL NOTE

House Bill 567 (Delegate Healey, *et al.*)
Ways and Means

Income Tax - Subtraction Modification for Health Insurance Premiums

This bill creates a subtraction modification for the individual income tax for amounts paid by an individual for health care insurance for the individual and the individual's spouse or dependents. For premiums paid under an employee benefit plan, only amounts included in federal adjusted gross income may be subtracted. The subtraction shall be reduced by the amount of any deduction allowed for self-employed individuals under federal law, and cannot exceed 7.5% of the individual's federal adjusted gross income.

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 could decline by an estimated $10.2 million in FY 1999. Out-year revenue losses reflect increases in the federal deduction for self-employed individuals and 5% inflation. Expenditures would not be affected.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	($10.2)	($10.6)	($10.8)	($11.3)	($11.4)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($10.2)	($10.6)	($10.8)	($11.3)	($11.4)

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

Local Effect: Local revenues would decline by 55% of any State revenue loss. Expenditures would not be affected.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: General fund revenues could decline by an estimated $10.2 million in fiscal 1999 based on the following facts and assumptions:

- approximately 110,200 health insurance policies are sold to Maryland residents outside of an employer-sponsored benefit plan;

- 25% of these policies are bought by self-employed individuals;

- self-employed individuals are eligible for a federal deduction of 45% of premiums in 1998 and 1999; 50% in 2000 and 2001; 60% in 2002; and 80% from 2003 through 2005; and

- the average premium is $2,100, increasing by 5% annually.

In tax year 1998, about 82,650 individuals would qualify for a full subtraction of the $2,100 annual premium. The other 27,550 individuals would qualify for a subtraction of 55% of the premium, since 45% could be deducted under federal law. Subtractions would therefore total $205.4 million, resulting in a revenue loss of $10.2 million in fiscal 1999 (at the 4.95% top tax rate). In fiscal 2000, the loss would be $10.6 million, accounting for 5% inflation and a 4.9% top tax rate.

In tax year 2000, when the federal deduction allowed for self-employed individuals increases to 50%, the subtraction for the self-employed would only be for 50% of premiums. After allowing for 5% inflation, total subtractions would be $223.2 million, resulting in a revenue loss of $10.8 million.

Local Revenues: Local revenues will decline by about 55% of the State revenue loss through the local income tax. In fiscal 1999, the revenue loss will be an estimated $5.6 million.

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

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