Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Revised

Senate Bill 638 (Senator Hollinger, *et al.*)
Budget and Taxation

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.

The Department of Health and Mental Hygiene is to report to the Governor and the General Assembly by October 1, 2001 on its efforts to inform the public on the importance of long-term care planning and of the credit, along with an analysis of the employers using the credit, a profile of employees covered by employer provided long-term care, and the revenue loss from the credit. In addition, the department shall conduct a study of alternative incentives that might directly encourage individuals to purchase long-term care insurance, and shall report its findings to the House Committee on Ways and Means and the Senate Budget and Taxation Committee by December 1, 2000.

This bill is effective July 1, 1998, and applies to all taxable years beginning after December 31, 1998.

Fiscal Summary

State Effect: General and special fund revenues would decline by an estimated $106,000 in FY 2000, increasing by about 16% annually in the out-years.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($93,100)	($112,400)	($128,000)	($148,400)	($172,200)
SF Revenues	($12,900)	($16,400)	($18,300)	($21,200)	($24,600)
GF Expenditures	$0	$0	$0	$0	$0
Net Effect	($106,000)	($128,800)	($146,300)	($169,600)	($196,800)

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

Local Effect: Local revenues will decline by $3,900 through a reduction of distributions from the Transportation Trust Fund (incorporated into the above special fund loss) in FY 2000.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: State revenues would decline by an estimated $106,000 in fiscal 2000 based on the following facts and assumptions:

- About 18,800 individuals will purchase policies through employer-provided benefits packages in tax year 1999, the first year in which the credit is available. Employers will pay, on average, 42% of the cost, which is $275.

- The number of employer-sponsored 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 $5.2 million. Employers will pay 42% of this amount, or $2.2 million. The credit of 5% would result in a revenue loss of $108,700, attributable to tax year 1999, assuming that no credits exceed the lesser of $5,000 or $100 per covered employee 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 2000, when tax year 1999 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 2000 loss is estimated at $128,800.

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 $93,100, and Transportation Trust Fund (TTF) revenues would decline by an estimated $12,900 (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.

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

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