SB 156

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 156 (Senator Hollinger, *et al.*)
Budget and Taxation

Inheritance Tax - Credit for Long-Term Care Insurance Premiums

This bill creates a credit, not to exceed $1,000 per decedent, against the inheritance tax for certain premiums paid by the decedent or the heirs of the decedent for premiums for long-term care insurance coverage for the decedent. The bill includes provisions for the apportionment of the credit among persons receiving property from the decedent.

The bill is effective July 1, 1999 and is applicable to decedents with a date of death on or after July 1, 1999.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated $289,100 in FY 2000. Future year revenue decreases reflect revenue accumulations and a constant death rate of 1.7% over the period. Expenditures will not be affected.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($289,100)	($1,434,700)	($1,461,400)	($1,480,200)	($1,564,300)
GF Expenditures	0	0	0	0	0
Net Effect	($289,100)	($1,434,700)	($1,461,400)	($1,480,200)	($1,564,300)

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

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

State Revenues: General fund revenues would decline by $289,100 in fiscal 2000 based on the following facts and assumptions:

- About 81,700 policies will be in effect in Maryland in calendar 1999. These policies represent individual or group association policies or policies that are included as a rider to a life insurance plan. The average age of these policy holders is 64, and the average cost of these policies is $1,425.

- About 15,440 additional individuals will hold policies through employer-provided benefits packages in calendar 1999. The average age of these policy holders is 43 and the average employee contribution to these policies is $275.

- The number of long-term plans issued is expected to increase each year but the cost is expected to remain constant or decline over time.

- Based on estate tax returns filed in fiscal 1997, 42.5% of decedents' returns are filed in the same fiscal year of death; 54.89% of the returns will be filed in the first fiscal year after death; and .08% of the returns are filed in second year after death.

Total premiums paid by Maryland taxpayers in calendar 1999 will be about $104.1 million. It is assumed that all decedents who purchased policies on their own and through employer-provided benefits packages in the past 10 years will receive the maximum $1,000, with the average annual cost of these programs being $1,425 and $275, respectively. Thus, this credit would result in a general fund loss of $360,100.

However, the inheritance tax revenue loss may be offset by an increase in estate tax collections. Any estate valued greater than $675,000 in tax years 2000 and 2001 is subject to both the estate tax and the inheritance tax. The estate tax paid, however, is reduced by the amount of the inheritance tax paid. As a result of this bill, inheritance tax liability decreases while estate tax liability increases. Therefore estate tax revenues will increase by $71,000.

Combining the inheritance tax loss with the estate tax increase results in a net general fund revenue loss of $289,100 in fiscal 2000.

This loss represents those decedents with death dates on or after July 1, 1999 and whose returns are filed in fiscal 2000. The loss in out-years will grow on an average of 1.63% during the relevant period. The revenue loss will be greater to the extent that the 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. The decrease in revenues due to this bill will not affect funding for the Registers of Wills.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates)

Fiscal Note History: First Reader - February 8, 1999
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