SB 157

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 157 (Senator Hollinger, *et al.*)
Budget and Taxation

Income Tax - Credit for Long-Term Care Insurance Premiums

This bill creates a credit against the individual income tax for 25% of the premiums paid for long-term care insurance by an individual for coverage of the individual or the individual's spouse, parent, stepparent, child, or stepchild. The credit may not exceed $100 for each insured for whom an individual pays the premiums. This credit does not affect the tax treatment of any deduction allowed under federal law for long-term care premiums.

This bill is effective July 1, 1999, and applies to all taxable years beginning after December 31, 1998.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated $9.2 million in FY 2000. Out-year estimates reflect increasing growth rates throughout the period; averaging around 19% a year.

($ in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($9.2)	($10.8)	($12.8)	($15.3)	($18.5)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($9.2)	($10.8)	($12.8)	($15.3)	($18.5)

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

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 $9.2 million in fiscal 2000 based on the following facts and assumptions:

- º About 81,700 policies will be in effect in Maryland in tax year 1999. These policies represent individual or group association plans 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.

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

- º 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.

Total premiums paid by Maryland taxpayers in 1999 will be about $104.1 million. All individuals purchasing policies on their own will receive a $100 credit, since 25% of the average cost is $356. The average credit for policies purchased through employer-sponsored benefits plans will be $69. Thus, this credit would result in a general fund revenue loss of $9.2 million. This loss will be realized in fiscal 2000, when 1999 tax returns are filed. The loss in the out-years will grow between 17% and 21% during the relevant period. 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 $50,500 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 7% reduction in price ($100 tax credit applied against a $1,425 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

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