Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 382 (Delegate Sher)
Economic Matters

Managed Care Organizations - Definition

This bill includes within the definition of "managed care organization" a limited liability corporation (sic) or a limited partnership that: (1) is a managed care system authorized to receive Medicaid prepaid capitation payments; (2) enrolls only Medicaid or Children's Health Insurance Program (CHIP) recipients; and (3) is subject to the financial surplus requirements enumerated in the Health-General Article.

Fiscal Summary

State Effect: To the extent that managed care organizations currently structured as corporations restructure as limited liability companies, corporate income tax revenues could change, beginning in FY 2002. Corporate income tax revenues are distributed 75% to the general fund and 25% to the Transportation Trust Fund (TTF). No effect on expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A managed care organization (MCO) is a certified health maintenance organization that is authorized to receive Medicaid prepaid capitation payments or a *corporation* that: (1) is a managed care system authorized to receive Medicaid prepaid capitation payments; (2) enrolls only Medicaid or Children's Health Insurance Program

(CHIP) recipients; and (3) is subject to the financial surplus requirements enumerated in the Health-General Article.

A limited liability company (LLC) is a permitted form of unincorporated business organization that may be organized under the Corporations and Associations Article. There is no legal entity referred to as a limited liability *corporation* under State law.

A limited partnership (LP) is a partnership formed by two or more persons under the Corporations and Associations Article and having one or more general partners and one or more limited partners.

State Effect: The bill's expansion of the definition of an MCO may allow: (1) current MCOs to restructure their businesses for legal or tax purposes; and (2) other business entities to contract with the State as MCOs. There are eight MCOs that currently participate in HealthChoice. The business structure of these MCOs is unknown at this time. If current MCOs restructure their businesses from corporations to LLCs, general fund revenues from income taxes could either increase or decrease. In addition, special fund TTF revenues could decrease. Corporate income taxes are distributed 75% to the general fund and 25% to the TTF. The magnitude of any revenue changes cannot be reliably estimated at this time.

A corporation that files taxes as a "C" Corporation (tax designation only) is taxed twice on its income. Its stockholders are taxed on any profit distributions they receive from the corporation at personal income tax rates, and the corporation itself is taxed on its annual income at corporate income tax rates.

Generally, both an LLC and LP are treated as "pass-through" entities for tax purposes, meaning that the individual member (LLC) or partner (LP) is taxed for business income at personal income tax rates. Expenditures would not be affected.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene (Medicaid), Department of Legislative Services

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