Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 270 (Delegate Hixson, *et al.*)
Ways and Means

Insurance Premiums Tax - Health Maintenance Organizations and Managed Care Organizations

This bill subjects health maintenance organizations (HMOs) and Medicaid managed care organizations (MCOs) to the 2% premium tax imposed on for-profit insurance carriers.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund premium tax revenues could increase by as much as $47 million in FY 2005. Potential $840,000 general fund and $265,100 Transportation Trust Fund (TTF) revenue reductions from the loss of corporate income tax revenues in FY 2005. Maryland Insurance Administration (MIA) special fund expenditures could increase by $70,000 in FY 2005 only. Potential minimal expenditure increase for Medicaid and the State Employee and Retiree Welfare Benefit Plan (State plan), beginning FY 2005. Out-year estimates reflect inflation.

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	$46.37	$79.77	$89.29	$100.04	$112.19
SF Revenue	(.27)	(.59)	(.65)	(.71)	(.79)
SF Expenditure	.07	0	0	0	0
Net Effect	$46.04	$79.18	$88.64	$99.33	$111.40

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

Local Effect: To the extent carriers increase their premiums as a result of the premium tax exemption repeal, expenditures for local jurisdiction employee health benefits could increase. Corporate income tax revenues that are remanded to local jurisdictions for local highway purposes could decrease by a minimal amount.

Small Business Effect: Minimal. To the extent that carriers increase premiums as a result of the premium tax exemption repeal, premiums in the small group market could increase.

Analysis

Bill Summary: Premiums to be taxed include: subscription charges or other amounts paid to an HMO on a predetermined periodic rate basis as compensation for providing health care services to members, and gross receipts received as a result of capitation payments, including supplemental or bonus payments, made to an MCO for provider services to MCO enrollees.

By March 15 of each year, an MCO must file a report to the Insurance Commissioner on the gross receipts received as a result of capitation payments made to the MCO during the preceding calendar year.

For taxable years beginning after December 31, 2004, HMOs and MCOs that are subject to the insurance premium tax are not subject to corporate income tax.

The premium tax is applicable to capitation payments made to MCOs on or after July 1, 2004 and premiums written for all policies, contracts, and health benefit plans issued, delivered, or renewed in the State on or after July 1, 2004. Any health benefit plan in effect before July 1, 2004 must comply with the bill's provisions no later than July 1, 2005. For taxable years beginning after December 31, 2004, the corporate income tax exemption is applicable to HMOs and MCOs that are subject to the 2% premium tax.

Current Law: A 2% premium tax is imposed on all gross direct insurance premiums receipts derived from business in Maryland. All health insurers, other than HMOs, fraternal benefit orders, and nonprofit health service plans are subject to the tax. HMOs and MCOs currently must pay corporate income tax.

Background: In 2002, the 2% premium tax would have generated $37 million from HMOs and $18 million from MCOs, for a total $55 million. There are currently 14 HMOs and seven MCOs operating in Maryland.

State Revenues:

Premium Tax: Premium tax revenues from HMOs and MCOs subject to the 2% premium tax could be as much as $47,212,199 in fiscal 2005. This estimate is based on the following facts and assumptions:

- in calendar 2002, actual HMO premiums were $1,854,996,625 and MCO premiums were $914,412,418;
- potential 2002 premium tax revenue from HMOs and MCOs totaled $55,388,181;
- HMO premiums increased 14% annually since calendar 2002 to reflect health insurance inflation;
- MCO premiums increased 6.5% annually since calendar 2002 to reflect medical inflation in the Medicaid program;
- most health benefit plans would renew January 1, 2005; and
- revenues were adjusted to reflect fiscal years.

Future year revenue increases reflect annual inflation.

Corporate Income Tax: Corporate income tax revenues could decrease by as much as $1,104,700 ($265,128 TTF; $839,572 general funds) in fiscal 2005, which reflects the bill's January 1, 2005 effective date for the corporate income tax exemption applied to HMOs and MCOs that would then be paying premium taxes. Future year revenue reductions reflect annual inflation.

State Expenditures: Maryland Insurance Administration (MIA) special fund expenditures could increase by $70,000 in fiscal 2005 from computer programming costs to modify its premium tax collection system to accept funds from HMOs and MCOs.

Medicaid and the State plan: To the extent HMOs increase their premiums as a result of the premium tax exemption repeal and pass this on to the State plan, expenditures could increase. Likewise, Medicaid expenditures for increased MCO capitation payments could increase. Any increase is expected to be minimal.

Additional Information

Prior Introductions: HB 753 was introduced in the 2003 session and included a provision imposing the premium tax on HMOs and MCOs. The bill was passed by both chambers but vetoed by the Governor. A similar bill, HB 636, also was introduced in the 2003 session, but was not reported by the House Ways and Means Committee. Similar bills, HB 1449 of 2002 and HB 510 of 1997, were introduced but not reported by the House Ways and Means Committee.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

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ncs/mdr

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