

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 1123
Ways and Means

(Delegate Trueschler, *et al.*)

Income Tax Credit for Malpractice Insurance Premium Increases

This bill creates a tax credit against the State income tax for specified medical malpractice premiums paid by a licensed physician during the tax year if the total amount of premium in a year exceeds, by more than 10%, the previous year's total premium. The amount of the credit is equal to 50% of the lesser of: (1) the amount in excess of 10% the current year's premium exceeds the prior year's premium; or (2) 40% of the amount paid during the previous year. The tax credit may not exceed the tax liability for that tax year and any unused amount may not be carried forward to any other tax year.

The bill takes effect July 1, 2004 and applies to tax years 2004 through 2006.

Fiscal Summary

State Effect: The extent of the general fund revenue loss cannot be reliably estimated at this time and depends on the annual increase in medical malpractice premium paid by licensed physicians in Maryland. Under one set of assumptions, revenues could decline by approximately \$14.5 million in FY 2005. If the medical malpractice premium paid by any licensed physician in the State in a year does not exceed by more than 10% the previous year's amount paid, revenues will not be affected.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: No State tax credit of this type exists.

State Revenues: The actual cost of the bill cannot be reliably estimated and depends on the annual increase in medical malpractice premium paid by licensed physicians in Maryland. If the medical malpractice premium paid by any licensed physician in the State in a year does not exceed the previous year's amount paid by at least 10%, revenues will not be affected in that tax year.

For illustrative purposes only, general fund revenues could decline by approximately \$14.5 million in fiscal 2005, based on the following facts and assumptions:

- According to the Maryland Board of Physicians, there were 15,321 licensed physicians living in Maryland as of January 2004.
- According to the Bureau of Labor Statistics, 10% of physicians are internists, 1.6% are obstetricians and gynecologists, 4.5% are surgeons, and 83.9% are unclassified.
- The mid-range estimates for medical malpractice premium for each of these classifications of physicians is calculated based on the ranges reported by the U.S. Department of Health and Human Services. It is assumed that the unclassified physicians pay similar rates as internists.
- From 2002 to 2003, the percentage increase in malpractice premium in Maryland was 28%. It is assumed that rates will increase by 28% from 2003 to 2004.
- Taxpayers will have sufficient tax liability to claim the entire amount of the credit.

To the extent that malpractice premiums paid are higher (or lower) in 2004, general fund revenue decreases will be higher (or lower) in fiscal 2005. Future year losses will depend on the percentage increase in medical malpractice premium in that year.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$43,000 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

Small Business Effect: Small business physicians would benefit from the tax credit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Bureau of Labor Statistics, Comptroller's Office, U.S. Department of Health and Human Services, Department of Legislative Services

Fiscal Note History: First Reader - March 24, 2004
mh/mdr

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