

**Department of Legislative Services**  
Maryland General Assembly  
2005 Session

**FISCAL AND POLICY NOTE**

House Bill 813 (Delegate Elliott, *et al.*)  
Ways and Means and Health and Government Operations

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**Income Tax - Surcharge for Lack of Health Care Coverage**

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This bill imposes an income tax surcharge beginning in tax year 2007 on individuals whose income exceeds specified thresholds and do not maintain minimum health care coverage. The bill also requires, effective January 1, 2007, employers to base withholdings on zero exemptions for any employee who is expected to earn more than \$50,000 in the tax year and does not provide proof of health insurance. The bill requires the Comptroller to “widely publicize” the requirements of the bill to provide an adequate opportunity for individuals to obtain health care coverage and avoid the surcharge.

The bill takes effect July 1, 2005.

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**Fiscal Summary**

**State Effect:** The extent of any general fund revenue increase depends on a number of unknown factors, including the number of taxpayers whose income exceeds specified thresholds and do not maintain minimum health care coverage, and the net taxable income of these taxpayers. Under one set of assumptions, general fund revenues could increase by approximately \$42 million in FY 2007 and by \$87 million in FY 2008. The Comptroller would incur significant one-time expenses due to publicizing the changes, notifying employers, and one-time tax form changes and computer expenses.

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Bill Summary:** Beginning in tax year 2007, the bill imposes income tax surcharges on resident taxpayers whose income exceeds specified thresholds and do not maintain minimum health care coverage.

An income tax surcharge of 1% is assessed on the Maryland taxable income of an individual whose net taxable income exceeds \$55,900 unless the individual and each dependent child of the individual had health care coverage: (1) for at least six months; and (2) on December 31 of the tax year.

An income tax surcharge of 2% is assessed on the Maryland taxable income of a married couple filing jointly if the married couple's net taxable income exceeds \$83,850 unless each spouse and each dependent of the married couple had health care coverage: (1) for at least six months; and (2) on December 31 of the tax year. This surcharge imposed on married couples equals 1% if each dependent child and either spouse had health care coverage: (1) for at least six months; and (2) on December 31 of the tax year.

The bill provides that the Comptroller may exempt specified people from the health care coverage requirements, including individuals who: (1) are just entering the workforce; (2) recently moved to the State; (3) are unemployed; or (4) have other legitimate reasons for noncompliance.

**Current Law:** There is no income tax surcharge imposed for lack of health care coverage. **Exhibit 1** shows Maryland's State income tax rates.

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### Exhibit 1 Maryland State Income Tax Rates Effective January 1, 2002

Maryland Taxable Income		
<u>Over</u>	<u>But Not Over</u>	<u>Rate</u>
\$ 0	\$1,000	2% of Maryland taxable income
1,000	2,000	3% of excess over \$1,000
2,000	3,000	4% of excess over \$2,000
3,000	---	4.75% of excess over \$3,000

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An employer bases State income tax withholdings on an employee's wages based on the number of exemptions stated in an exemption certificate filed by the employee. If the employee fails to file an exemption certificate or files an invalid certificate, the employer bases withholdings on one exemption. If the Comptroller notifies the employer that the employee has an unpaid tax liability, the employer bases withholding on the number of exemptions, as specified by the Comptroller, that does not exceed the number of exemptions allowed on the employee's prior year's tax return.

**Background:** According the U.S. Census Bureau, the percent of Americans who did not have health insurance for the full year was: (1) 11.8% of Americans with household incomes from \$50,000 to \$75,000; and (2) 8.2% for households with incomes of \$75,000 or more. Approximately 13.4% of Maryland residents did not have health insurance for the full year compared with 15.2% of all Americans. **Exhibit 2** lists the net taxable income of all estimated resident individuals and married, filing jointly tax returns in tax year 2003.

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**Exhibit 2**  
**Net Taxable Income of Tax Returns**  
**that Exceed Income Thresholds of HB 813**

	<u>Returns</u>	<u>Net Taxable Income (billions)</u>
Married, filing Jointly	235,311	\$42.72
Individuals	107,865	11.0

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**State Revenues:** The actual general fund revenue increase caused by the bill, which cannot be reliably estimated at this time, depends on the number of individuals who have incomes in excess of the thresholds specified by the bill and do not have health insurance for at least six months of the year, and the net taxable income of these individuals.

However, *for illustrative purposes only*, general fund revenues could increase by approximately \$42 million in fiscal 2007, \$87 million in fiscal 2008, and increase by approximately 5% thereafter. This estimate is based on the estimated number of relevant individuals who do not have health care nationally adjusted for Maryland, and the number of returns that have net taxable income in excess of the income thresholds specified by the bill. The amount of net taxable income reported in tax year 2003 is increased by 5% annually.

The previous analysis assumes that an enforcement mechanism can be developed to verify income tax compliance with the provisions of this bill. To the extent that taxpayers misstate the level of health coverage on tax returns and an appropriate enforcement mechanism is not developed, general fund revenues will be substantially lower. In addition, it cannot be reliably estimated how many individuals would gain health care coverage in order to avoid the surcharge.

**State Expenditures:** The Comptroller's Office estimates that it would incur a one-time general fund expenditure increase of: (1) approximately \$300,000 in fiscal 2006 in order to conduct an advertisement campaign to publicize the provisions of the bill; (2) several thousand dollars in fiscal 2007 in communication expenses in order to notify employers of the withholding requirements of the bill; and (3) \$34,000 in fiscal 2008 due to one-time tax form changes and systems testing.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, U.S. Census Bureau, Department of Legislative Services

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