

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 883
Ways and Means

(Delegate Hixson, *et al.*)

Income Tax - Subtraction Modification for Health Insurance and Medical Expenses

This bill creates a subtraction modification under the State income tax for individuals who pay health insurance and “other medical expenses” on behalf of an adult who resides in the same household and is not a dependent. The amount of the subtraction modification equals 100% of eligible costs incurred by the individual, not to exceed \$10,000.

The bill takes effect July 1, 2005 and applies to tax year 2005 and beyond.

Fiscal Summary

State Effect: The impact on State revenues cannot be reliably estimated at this time. Under one set of assumptions, general fund revenues could decrease by approximately \$7.8 million annually beginning in FY 2006. No effect on expenditures.

Local Effect: Local income tax revenues would decrease by approximately 3.1% of the total State subtraction modification taken. Under the assumptions used above, local income tax revenues could decrease by approximately \$5.1 million annually beginning in FY 2006. No effect on expenditures.

Small Business Effect: None.

Analysis

Current Law: No such State subtraction modification exists.

State Revenues: The actual cost of the bill cannot be reliably estimated and depends on the eligible number of taxpayers and the amount of qualifying deductions claimed.

For illustrative purposes only, general fund revenues could decrease by approximately \$7.8 million in fiscal 2006, based on the following facts and assumptions.

- There are approximately 110,000 unmarried households in Maryland.
- According to the Census Bureau, in 2002 the average per capita consumer expenditure for health care and expenses was \$5,241. This amount is estimated to increase by approximately 5% annually.
- In 25% of these unmarried households, an individual claims the deduction.

The bill provides a substantial tax incentive for adults who reside together to pay for the qualifying expenditures of the other person that would have been otherwise paid by that individual. To the extent that other households, including married households, can claim additional “other medical expenses” and health care costs as provided under the bill revenue losses would be greater than estimated.

Additional Information

Prior Introductions: None.

Cross File: SB 821 (Senator Ruben, *et al.*) – Budget and Taxation.

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

Fiscal Note History: First Reader - March 14, 2005
mp/hlb

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