SB 496

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 496 (Senator Haines)
Budget and Taxation

Income Tax - Credit for Long-Term Care Premiums

This bill expands the existing Long-Term Care Insurance income tax credit by eliminating the restriction that in order to claim the credit the tax credit must not have been claimed for the insured by any taxpayer for any prior taxable year.

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

Fiscal Summary

State Effect: General fund revenues could decrease by approximately $29.1 million in FY 2006, which reflects the estimated number of taxpayers eligible for the expansion. Future years reflect annual increase of approximately 18% in new policies and 3% nonrenewal rate on existing policies. No effect on expenditures.

($ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	($29.1)	($43.5)	($60.5)	($79.2)	($98.4)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($29.1)	($43.5)	($60.5)	($79.2)	($98.4)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Chapter 242 of 2000 allowed taxpayers to claim a credit against the State income tax for 100%, not to exceed $500, of the premiums paid for long-term care insurance for coverage of the individual or the individual's spouse, parent, stepparent, child, or stepchild. The credit may not be claimed with respect to an insured individual if: (1) the insured individual was covered by long-term care insurance at any time before July 1, 2000; and (2) the credit has been claimed by any taxpayer more than once for any individual's long-term care insurance policy. The maximum amount of the credit depends on the age of the insured. Based on federal guidelines, the maximum credit allowed for tax year 2004 is: (1) $260 if the insured is 40 years old or younger; (2) $490 if the insured is age 41 to 50; and (3) $500 if the insured is 51 years or older. The maximum credit allowed is adjusted annually and any unused credit cannot be carried over to any other tax year.

Chapter 242 of 2000 also mandated that the Comptroller report the following information about the tax credit: (1) the number of individuals who have claimed the credit, the amount allowed as credits, and the additional number of individuals covered by long-term care insurance as a result of the credit; and (2) the savings under the State's medical assistance program as a result of additional individuals being covered by long-term care insurance as a result of the credit. This information is to be reported annually by the Comptroller, beginning on December 1, 2005.

Background: Long-term care typically provides for the medical, social, personal, and supportive services needed by people who have lost some capacity for self-care because of a chronic illness or condition. This includes services provided by nursing homes, hospices, and at-home care but does not include medical care for acute conditions. The population of long-term care recipients includes: (1) the elderly; (2) the functionally and developmentally disabled; and (3) individuals suffering from mental disorders such as dementia and Alzheimer's.

Due to a rapidly aging population, State expenditures on long-term care have been projected to increase. In response to these projected spending increases, Chapter 242 of 2000 established a one-time tax credit for the purchase of new long-term care policies in an attempt to promote purchases of new long-term care policies. The credit applies to tax years 2000 and later. The amount and number of returns that have claimed the credit are listed in **Exhibit 1**.

Exhibit 1
Long-term Care Insurance Tax Credit

Tax Year	Returns	Amount
2000	2,673	$1,625,238
2001	5,204	3,274,753
2002	8,998	5,117,509
2003	14,061	8,950,503

In addition, Chapter 7 of 1998 created a tax credit equal to 5% of an employer's cost for providing long-term care insurance benefits to employees. The credit is capped at $5,000 or $100 per employee covered. This credit may be used by an employer against the public service company franchise tax, the financial institutions franchise tax, the insurance premium tax, or individual and corporate income taxes. If the tax credit exceeds the taxes due for any taxable year, the credit can be carried forward for up to five tax years. This tax credit applies to tax years 1999 and beyond.

The federal Health Insurance Portability and Accountability Act of 1996 established favorable tax treatment for long-term care insurance similar to that granted to accident and health insurance premiums. Employee-paid premiums are treated as unreimbursed medical expenses that are potentially deductible from income along with other unreimbursed medical expenses. As such, if an individual itemizes deductions, the premiums are deductible to the extent that the individual's uncompensated medical expenses exceed 7.5% of the individual's adjusted gross income. This deduction is subject to an annual limitation based on the policyholder's age.

Employer-paid premiums are fully excludable from employee income. However, the benefits an employer provides under a long-term care insurance contract are not tax exempt to an employee if they are provided through a "cafeteria" plan. The State Employee Health Benefits Plan is an example of a "cafeteria" plan.

In addition, the federal Long-Term Care Security Act of 2000 offered the option of enrolling in long-term care insurance to most federal and U.S. postal service employees and retirees as well as active members of the uniformed services.

State Revenues: This bill expands the existing tax credit by allowing individuals who qualify for the existing tax credit to claim the credit for every year the policy is in effect and not just one-time as provided under current law. This expansion is effective tax year 2005. As a result, general fund revenues would decrease by an estimated $29.1 million in fiscal 2006 based on the following facts and assumptions:

- In tax year 2000 to 2003, 30,936 returns claimed the credit on a one-time basis. Approximately $19 million was claimed in this period and could be claimed on an annual basis beginning in fiscal 2006.
- The number of returns that claim the credit is estimated to increase by approximately 18% annually from 2003 to 2008. Under current law, taxpayers can claim the credit one time. Revenue loss to the State due to the expansion of the credit would occur beginning with the second year credits are claimed.
- Three percent of all policies are not renewed in each year.
- The average credit claimed per tax return in 2000-2003 was $611.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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