

Department of Legislative Services  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**

House Bill 132  
Ways and Means

(Delegate Hixson, *et al.*)

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**Income Tax - Subtraction Modification for Health Insurance and Medical Expenses**

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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 \$5,000.

The bill takes effect July 1, 2006 and applies to tax year 2006 and beyond.

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**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 \$3.6 million annually beginning in FY 2007. No effect on expenditures.

**Local Effect:** Local income tax revenues would decrease by approximately 3% of the total State subtraction modification taken. Under the assumptions used above, local income tax revenues could decrease by approximately \$2.3 million annually beginning in FY 2007. No effect on expenditures.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** No similar State subtraction modification exists.

**State Revenues:** The actual cost of the bill, which cannot be reliably estimated at this time, depends on the number of taxpayers claiming the deduction and the total amount of medical expenditures eligible for the deduction.

However, *for illustrative purposes only*, based on data from the U.S. Census Bureau and the estimated amount of per capita out-of-pocket health care expenditures, general fund revenues could decrease by approximately \$3.6 million in fiscal 2007. This estimate is based on the following facts and assumptions:

- According to the U.S. Census Bureau, there were approximately 110,000 unmarried households in Maryland in 2000. It is assumed that the number of these households increases at the same rate as the rate of population growth in Maryland.
- According to the Office of the Actuary at the Centers for Medicare & Medicaid Services, the estimated per capita out-of-pocket health care expenditures in 2005 was \$868.
- In 75% 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.

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### **Additional Information**

**Prior Introductions:** SB 821/HB 883, similar bills, were introduced at the 2005 session. HB 883 received an unfavorable report from the House Ways and Means Committee. The Senate Budget and Taxation Committee took no action on SB 821.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 18, 2006  
nas/hlb

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