HB 665

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 665 (Delegate Frank, *et al.*)
Ways and Means

Income Tax - Credit for Long-Term Care Insurance

This bill expands the existing employer-provided long-term care insurance tax credit by increasing the maximum value of the credit to the lessor of $15,000 or $300 for each employee in the State covered by an employer-provided long-term care insurance contract.

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

Fiscal Summary

State Effect: Minimal decrease in State revenues in FY 2007 and beyond. No effect on expenditures.

Local Effect: Potential minimal decrease in local highway user revenues distributed from the corporate income tax. No effect on expenditures.

Small Business Effect: Minimal.

Analysis

Current Law: Chapter 7 of 1998 allowed an employer to claim a credit equal to 5% of the costs incurred to provide long-term care insurance as part of an employee benefit package. The amount of the credit may not exceed the lessor of $5,000 or $100 for each employee in the State covered by one of these long-term care insurance policies. The tax credit can be claimed by a business against the State income tax and against the unrelated business income tax by a nonprofit organization. Any amount of credit claimed cannot exceed the tax liability in that tax year. Any unused amount of the credit can be carried forward five tax years.

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 increases, Chapter 7 of 1998 and Chapter 242 of 2000 provided tax incentives for the purchase of long-term care insurance contracts. 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 provided the individual was not covered by a long-term care insurance policy at any time before July 1, 2000. The credit may only be claimed during one tax year with respect to any policy.

In tax years 1999 through 2004, a total of 50 returns claimed the tax credit for employers for a total amount of $25,644. Approximately 80% of this amount was claimed against the corporate income tax. In tax year 2004, 6,221 returns claimed the tax credit for individuals for a total of approximately $4.5 million.

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 deducted 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.

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 postal service employees and retirees as well as active members of the uniformed services.

State Revenues: This bill expands the existing tax credit by increasing the maximum value of the credit beginning in tax year 2006. As a result, State revenues could decrease minimally in fiscal 2007 and beyond. According to the Comptroller's Office, a total of

$26,000 in additional credits would have been claimed by 16 businesses if the provisions of the bill would have been in effect in tax year 1999 through 2004. This is an average of an additional $520 for every tax return that claimed the credit. In most cases, increasing these maximum values of the credit would not have increased the amount of credit received by the taxpayer.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 15, 2006
nas/hlb

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