

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1499 (Delegate Hixson)  
 Ways and Means

Income Tax - Credit for Medical Malpractice Insurance

This bill enables an individual or corporation to claim a credit against the State income tax for qualifying amounts of medical malpractice insurance premiums if the amount of insurance paid exceeds 14% of the amount of gross income attributable to the medical practice for which the malpractice premiums are paid. The amount of the credit is equal to: (1) 50% of the amount of premiums paid between 14% and 16%; and (2) 100% of the amount of premiums paid in excess of 16%. The credit may not be claimed if a licensed physician has had a malpractice claim paid on his/her behalf within the previous five years.

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

Fiscal Summary

**State Effect:** Significant decrease in State revenues in FY 2007 and beyond due to credits being claimed against the personal and corporate income tax. The decrease depends on the amount of qualifying premiums and cannot be reliably estimated at this time. General fund expenditures would increase by approximately \$32,900 in FY 2007 due to one-time tax form changes and computer expenses.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF/SF Rev.	(-)	(-)	(-)	(-)	(-)
GF Expenditure	32,900	0	0	0	0
Net Effect	(\$32,900)	\$0	\$0	\$0	\$0

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

**Local Effect:** Local highway user revenues distributed from the Transportation Trust Fund would decrease as a result of credits being claimed against the corporate income tax. Expenditures would not be affected.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law:** No similar State credit exists. However, the State does subsidize the cost of health care providers' professional liability insurance as discussed below.

**Background:** Chapter 5 of the 2004 special session, as amended by Chapter 1 of 2005, provides subsidies to health care providers' professional liability insurance. Under Chapter 1, approximately \$52 million was made available to subsidize calendar 2005 policies and \$45 million for calendar 2006 policies. Subsidies will be provided through 2009. Of the amount available for 2005 policies, \$35 million was disbursed to approximately 8,000 policyholders (which can represent more than one health care provider). In calendar 2005, the four companies that provided professional liability insurance collected a total of \$192 million in premium.

**State Revenues:** State revenues would decrease significantly in fiscal 2007 and beyond due to credits being claimed against the personal and corporate income tax. The amount of the decrease depends on the amount of qualifying premiums that can be claimed and cannot be reliably estimated at this time. **Exhibit 1** lists the potential revenue loss under the bill depending on the percentage of premium paid that would qualify for the credit.

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### Exhibit 1 HB 1499 Revenue Loss

<u>Revenue Loss</u>	<u>Percentage of Total Premiums</u>
\$1.9	1%
9.6	5%
19.2	10%
48.0	25%

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**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$32,900 in fiscal 2007 to add the credit to the personal income tax form. This includes data processing changes to the SMART income tax return and processing systems, and systems testing.

**Small Business Impact:** Small businesses that claim the credit would be positively impacted by the bill, particularly those that already have part of the cost of medical malpractice premiums subsidized by the State.

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### **Additional Information**

**Prior Introductions:** SB 544 of 2004, an identical bill, was withdrawn.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Insurance Administration, Department of Legislative Services

**Fiscal Note History:** First Reader - March 23, 2006  
ncs/hlb

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