

**Department of Legislative Services**  
**Maryland General Assembly**  
**2007 Session**

**FISCAL AND POLICY NOTE**

House Bill 1059  
Ways and Means

(Delegate Mizeur, *et al.*)

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**Family Health Care Affordability Act**

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This bill creates a tax credit against the State income tax for eligible health care costs incurred by an individual with federal adjusted gross income (FAGI) of 400% or less of federal poverty guidelines (FPG). The credit is equal to the amount by which an individual's health insurance premiums, deductibles, co-payments, and coinsurance payments exceed 5% of the individual's FAGI, subject to a maximum of \$1,000 for an individual and \$2,000 for a joint return and individual with dependent(s). If the amount of the credit exceeds the tax liability in the year, a taxpayer can claim a refund in the amount of the excess. The bill provides that taxpayers who itemize must reduce the amount of itemized deductions by the lesser of the amount deducted under the federal medical and dental expenses deduction or the amount of credits claimed under the provisions of this bill.

The bill takes effect July 1, 2007 and applies to tax year 2007 and beyond.

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**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$274.4 million in FY 2008 due to credits being claimed by eligible individuals. Future year revenues reflect the estimated number of eligible individuals claiming the credit and inflation. General fund expenditures would increase by \$34,000 in FY 2008 for one-time tax form changes and computer programming expenditures.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$274.38)	(\$286.18)	(\$298.49)	(\$311.32)	(\$324.71)
GF Expenditure	.03	0	0	0	0
Net Effect	(\$274.42)	(\$286.18)	(\$298.49)	(\$311.32)	(\$324.71)

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

**Local Effect:** Local income tax revenues would increase due to the requirement that individuals claiming the credit reduce the amount of itemized deductions. Local revenues would increase by \$403,600 in FY 2008 and increase by approximately 4% annually thereafter. Expenditures would not be affected.

**Small Business Effect:** None.

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## Analysis

**Current Law:** No similar State income tax credit exists, but a taxpayer who claims the federal medical and dental expenses deduction can typically lower State tax liability as discussed below.

**Background:** The federal medical and dental expenses deduction allows individuals who itemize deductions to deduct expenses paid that year for medical care (including dental). In order to qualify for the deduction, the expenses must total more than 7.5% of the taxpayer's FAGI. The value of the deduction is equal to the amount by which the eligible medical expenses exceed 7.5% of the taxpayer's FAGI. Unreimbursed expenses paid during the year, regardless of when the services were provided, on behalf of the individual, spouse, and qualified dependents qualify for the deduction.

**Exhibit 1** displays the 2007 FPG by family size for 400% FPG.

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### Exhibit 1 2007 Federal Poverty Guidelines

<u>Family Size</u>	<u>100% FPG</u>	<u>400% FPG</u>
1	\$10,210	\$40,840
2	13,690	54,760
3	17,170	68,680
4	20,650	82,600

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**State Revenues:** Tax credits could be claimed beginning in tax year 2007. As a result, general fund revenues could decrease by \$274.4 million in fiscal 2008. This estimate is based on the following facts and figures:

- In tax year 2005, there were an estimated 1.5 million tax returns with income less than 400% of FPG.
- According to the Maryland Health Care Commission, 30% of individuals with incomes less than 400% of FPG are uninsured and 13% are covered through public health insurance programs. It is assumed that these individuals would not claim the credit.
- Based on the amount of qualifying medical expenses estimated by family sized by the federal Bureau of Labor Statistics (BLS) and federal and State income data reported by the Comptroller's Office, individuals would claim an average credit of less than \$100, joint returns \$800, and returns with dependents \$205.
- Requiring individuals who claim the credit to reduce itemized deductions would offset State revenue losses by \$639,100 in tax year 2007.
- BLS estimates that health care expenditures will increase by 4.3% annually.

To the extent that the credit induces additional individuals to purchase health insurance, revenue losses would be greater than estimated.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time cost of \$34,000 in fiscal 2008 to add the credit to the personal income tax form. This includes processing changes to the SMART income tax return processing and imaging systems and systems testing.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Human Resources, Department of Legislative Services

**Fiscal Note History:** First Reader - March 13, 2007  
ncs/hlb

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