

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 529

(Senators Madaleno and Kramer)

Budget and Taxation

Income Tax - Subtraction Modification for Health Insurance and Medical Expenses

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 subtraction modification may not be claimed for any health costs that are tax deductible for federal income tax purposes.

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

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 \$3.6 million annually beginning in FY 2008. No effect on expenditures.

Local Effect: Local income tax revenues would decrease by 3% of the total State subtraction modification taken. *Under the assumptions used above*, local income tax revenues could decrease by \$2.3 million annually beginning in FY 2008. No effect on expenditures.

Small Business Effect: None.

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 \$3.6 million annually beginning in fiscal 2008. This estimate, which reflects only medical expenses, 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 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 above estimate does not include the cost of health insurance. If individuals would claim the entire \$5,000 subtraction, general fund revenues would decrease by \$20.1 million annually beginning in fiscal 2008.

It is assumed that the intent of the bill is to provide a subtraction modification to individuals who would otherwise be unable to deduct certain medical costs. Therefore, it is assumed that taxpayers who file jointly would be unable to claim the deduction for the health insurance and “other medical expenses” construed to be paid on behalf of each other. This bill also does not preclude individuals from claiming reciprocal subtractions. To the extent that these individuals could claim the deduction, revenue losses would be significantly higher than estimated. In addition, although the bill stipulates that the subtraction modification could not be claimed for health care costs paid through a health care flexible spending account or similar tax-advantaged vehicle, additional revenue losses might result from these individuals claiming the subtraction modification due to enforcement difficulties at the Comptroller’s Office.

Additional Information

Prior Introductions: Similar bills were introduced at the 2005 and 2006 sessions. HB 132 of 2006 was not reported from the House Ways and Means Committee. SB 821 of 2005 was not reported from the Senate Budget and Taxation Committee. HB 883 of 2005 received an unfavorable report from Ways and Means.

Cross File: None.

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

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510