

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 737 (Delegate Elliott, *et al.*)
 Health and Government Operations

Health Care Coverage - Personal Responsibility

This bill imposes a State income tax surcharge of \$1,000 on individuals and \$2,000 on couples with Federal Adjusted Gross Income (FAGI) in excess of \$50,000 (\$100,000 for joint filers) if the individual does not have health care coverage. Monies raised from the surcharge are to be used to fund the Health Care Coverage Fund.

The bill takes effect July 1, 2008. The tax surcharge takes effect January 1, 2009 and applies to tax year 2009 and beyond.

Fiscal Summary

State Effect: Special fund revenues and expenditures could increase by \$43.2 million beginning in FY 2010. General fund expenditures for health care coverage could decrease beginning in FY 2010 due to the availability of tax surcharge revenues. General fund administrative expenditures could increase by \$305,100 in FY 2009 due to implementation costs at the Comptroller’s Office. Future years reflect estimated amount of surcharge revenues and ongoing expenses at the Comptroller’s Office.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	\$0	\$43.2	\$44.6	\$32.8	\$26.8
GF Expenditure	.3	(42.7)	(44.1)	(32.2)	(26.2)
SF Expenditure	0	43.2	44.6	32.8	26.8
Net Effect	(\$.3)	\$42.7	\$44.1	\$32.2	\$26.2

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: If an individual's FAGI exceeds \$50,000, the individual is subject to a surcharge of \$1,000, unless the individual and each dependent child had health care coverage for at least six months of the taxable year and on December 31 of the taxable year. For a married couple filing a joint return, if the joint FAGI of the couple exceeds \$100,000, the married couple is subject to a surcharge of \$2,000, unless each spouse and each dependent child of the married couple had health care coverage for at least six months of the taxable year and on December 31 of the taxable year. If only one spouse in a married couple and each dependent child had health care coverage for at least six months of the taxable year and on December 31 of the taxable year, the couple is subject to a \$1,000 surcharge. The surcharge is applicable to tax year 2009 and beyond.

The surcharges do not apply to a nonresident, including a nonresident spouse or a nonresident dependent. The Comptroller must provide exceptions for individuals: (1) just entering the workforce; (2) recently moving into the State; (3) who are unemployed for four or more consecutive weeks; (4) who are unable to obtain health insurance under specified conditions; and (5) who object to health insurance on religious grounds. The Comptroller must distribute these surcharge revenues to Health Care Coverage Fund to be used for expansion of eligibility under the Maryland Medical Assistance Program or for subsidies of private health insurance.

An employer must base withholding for an employee on zero exemptions if the annual compensation of the employee is expected to exceed \$50,000 and the employee does not have health care coverage from the employer or has not presented the employer with a certification of other health care coverage. The Comptroller must widely publicize the tax surcharge requirements to provide an adequate opportunity for individuals to obtain health care coverage and avoid a surcharge.

Current Law: There is no tax surcharge imposed on individuals who lack health care coverage.

Background: Chapter 7 of the 2007 special session established the Health Care Coverage Fund to expand Medicaid eligibility for parents, caretaker relatives, and childless adults up to 116% of federal poverty guidelines, established a Small Employer Health Benefit Plan Premium Subsidy Program, and support for health care services in Prince George's County. The fund consists of • \$75 million from the Maryland Health Insurance Plan Fund, to be transferred on July 1, 2008; • monies collected from any Health Services Cost Review Commission hospital assessment of uncompensated care savings achieved under Chapter 7; • investment earnings; and • any other monies from any other source accepted for the benefit of the fund. In fiscal 2011 through 2013, up to

\$10.0 million per year may be transferred from the fund to support health care services in Prince George's County.

Money from the Health Care Coverage Fund must supplement and may not supplant funding for Medicaid. The fund is subject to audit by the Office of Legislative Audits. In fiscal 2010, total expenditures for the Medicaid expansion and Small Employer Health Benefit Plan Premium Subsidy Program are projected to be \$269.2 million, and general funds are expected to support \$109.7 million of the total costs.

State Fiscal Effect: Special fund revenues could increase by \$43.2 million in fiscal 2010 from the tax surcharge imposed on individuals and married couples with adjusted gross incomes in excess of \$50,000 for single filers and \$100,000 for joint filers. This estimate is based on the following facts and assumptions:

- approximately 196,200 individual and joint filers with incomes in excess of the thresholds specified by the bill do not have health insurance in 2008;
- 117,700 (60%) would obtain health insurance to avoid the surcharge;
- 78,500 would be subject to the surcharge;
- 10% of these individuals (7,800) would meet one of the bill's exceptions;
- revenues would be collected from 49,500 individuals (70% compliance rate); and
- 75% of the amount assessed would be collected within the same fiscal year.

Future year revenues would decrease as more individuals opt to obtain coverage and avoid the surcharge. Although the bill's provision specifying that State withholdings be increased for specified individuals without coverage beginning January 1, 2009, it is assumed that these revenues would not be able to be distributed until fiscal 2010 when tax year 2009 returns are filed.

Health Care Coverage Fund Expenditures

Revenues generated by the tax surcharge are to be deposited to the Health Care Coverage Fund. It is assumed that these revenues would result in an equivalent decrease in the portion of general fund expenditures dedicated to the fund as shown in **Exhibit 1**.

Exhibit 1
HB 737 Surcharge Revenue and Offset to General Fund Expenditures
(\$ in Millions)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Surcharge Revenues	\$43.2	\$44.6	\$32.8	\$26.8
General Fund Expenditures				
Current Law	\$109.7	\$155.0	\$283.3	\$275.2
HB 737	66.5	110.3	250.6	248.3
Savings	43.2	44.6	32.8	26.8

Imposing a surcharge would replace about 40% of the general fund expenditures currently required in fiscal 2010 to support the Health Care Coverage Fund. This percentage would drop to about 10% in fiscal 2013 as surcharge revenues decrease and general fund expenditures required to support the fund increase.

Tax Surcharge Compliance

Legislative Services estimates that general fund expenditures would increase by \$305,120 in fiscal 2009, which reflects \$55,120 in postage costs associated with informing the 110,000 active withholding accounts of the requirement to verify employees' health insurance status and \$250,000 in advertising. The estimated advertising expenses are based on the Comptroller's Office advertising budget for publicizing unclaimed property. It is estimated that the Comptroller's Office would need to hire an additional 9 auditors beginning in fiscal 2010. **Exhibit 2** lists the administrative expenses at the Comptroller's Office in fiscal 2009 through 2013.

Exhibit 2
Comptroller's Office Administrative Expenses

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Salary and Fringe Benefits	\$0	\$510,662	\$538,104	\$567,191	\$598,035
Operating Expenses	55,120	42,167	4,775	4,871	4,968
Advertising	<u>250,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$305,120	\$552,829	\$542,879	\$572,062	\$603,003

This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect • full salaries with 4.4% annual increases and 3% employee turnover; and • 1% annual increases in ongoing operating expenses.

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 Legislative Services

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