HB 711

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 711 (Delegate Cardin, *et al.*)
Ways and Means

Income Tax - Subtraction Modification - Healthy Improvement and Disease Prevention Act of 2009

This bill creates a subtraction modification against the State income tax for qualified expenses for exercise equipment, fitness activities, physical activity programs, tobacco cessation programs, and weight loss programs. The amount of the subtraction modification cannot exceed $1,500 ($750 for married couples filing separately). The Comptroller, in cooperation with the Department of Health and Mental Hygiene (DHMH), must administer the subtraction modification and adopt regulations that specify expenses eligible for the subtraction modification. The Comptroller and DHMH must report to the General Assembly by September 1, 2009 on the implementation of the bill.

The bill takes effect July 1, 2009 and applies to tax year 2010 and beyond.

Fiscal Summary

State Effect: General fund revenues will decrease significantly beginning in FY 2011 due to subtraction modifications claimed against the personal income tax. General fund expenditures increase by $20,200 in FY 2010 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

Local Effect: Local revenues will decrease significantly beginning in FY 2011 due to a reduction in local income tax revenues. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill creates a subtraction modification against the State income tax for specified wellness-related expenses. Expenses that qualify include (1) the purchase of exercise equipment for use by the taxpayer or taxpayer's spouse or dependent; (2) qualified fitness expenses for the taxpayer, taxpayer's spouse, or adult dependent; (3) participation by the taxpayer, taxpayer's spouse, or dependent in a qualified tobacco cessation program or weight loss program; or (4) participation by a child dependent of the taxpayer in a qualified physical activity program.

The amount of the subtraction may not exceed for each taxpayer, spouse, or dependent: (1) $500 for qualified fitness expenses; (2) $500 for participation in a tobacco cessation program; (3) $500 for a qualified weight loss program; (4) $500 for each child dependent to participate in a qualified physical activity program; and (5) $500 for the purchase of exercise equipment. The limits for fitness, tobacco cessation, and weight loss program expenses are increased by $250 for each taxpayer, spouse, or dependent who is at least 65 years old. The total subtraction modification may note exceed $1,500. The subtraction modification is limited to $750 for a married individual filing a separate return.

Exercise equipment is defined as a product designed for use in moderate or vigorous exercise and includes: (1) an elliptical trainer; (2) free weights; (3) a home gym; (4) a rowing machine; (5) a stair climber; (6) a treadmill; or (7) an upright or recumbent stationary bicycle. Exercise equipment does not include sporting equipment purchased for participation in a sport. Qualified fitness expenses are costs for participation in a health and fitness program including aerobic exercise training, martial arts, personal training, yoga, or a health club membership that is open to the general public. Qualified physical activity program means a program to encourage children to engage in moderate or vigorous physical activity for at least 45 minutes a day at least three days a week.

Current Law: Certain medical-related expenses discussed below can be deducted for federal income tax purposes which typically results in a lower federal and State income tax liability.

Background: Medical expenses under the Internal Revenue Code are the costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the costs for treatments affecting any part or function of the body. They include costs of equipment, supplies, and diagnostic devices needed for these purposes. Medical expenses must be primarily to alleviate or prevent a physical or mental illness or defect. They do not include expenses that are beneficial to general health, such as vitamins or a vacation. Qualifying medical expenses can be deducted if an individual itemizes. The amount of the deduction is equal to medical expenses in excess of 7.5% of federal adjusted gross income. The cost of tobacco cessation programs qualify for the deduction as well as the cost of weight-loss programs if it is a treatment for a specific disease diagnosed by a physician. In addition to the medical expenses deduction, individuals can pay for medical expenses out of a health savings account and other tax-favored health plans. Generally, expenses that qualify for the medical expenses deduction qualify for health savings accounts.

State Revenues: Subtraction modifications may be claimed beginning in tax year 2010. Accordingly, general fund revenues will decrease significantly beginning in fiscal 2011. However, the amount of the revenue loss cannot be reliably estimated and depends on the number of expenses that qualify for the subtraction modification. The Consumer Expenditure Survey provides information on consumer expenditures by class of expenditure but does not include enough detail to estimate the expenditures that will qualify under the bill. **Exhibit 1** shows the fiscal impact of the bill if a certain percentage of all taxpayers claim the maximum subtraction modification.

Exhibit 1
Potential State and Local Fiscal Impact

Percent of Taxpayers	State Revenues	Local Revenues
1.0%	$1,565,500	$978,500
2.5%	3,913,900	2,446,200
5.0%	7,827,700	4,892,300
10.0%	15,655,400	9,784,600
25.0%	39,138,600	24,461,600

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of $20,200 in fiscal 2010 to add the subtraction modification to the personal and corporate income tax returns. This includes data processing changes to the SMART income tax return processing and imaging systems and system testing.

Local Revenues: Local income tax revenues may decrease by about 3% of the total subtraction modification claimed. Exhibit 1 illustrates the loss of local revenues depending on how many individuals claim the maximum subtraction modification.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 18, 2009
mlm/hlb

Analysis by: Robert J. Rehrmann

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