Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 681 (Delegate Frank, *et al.*)
Ways and Means

Income Tax - Credit for Long-Term Care Insurance

This bill expands the existing employer-provided long-term care insurance tax credit by increasing the maximum value of the credit to the lesser of $15,000; or $300 for each employee in the State covered by an employer-provided long-term care insurance contract.

The bill takes effect July 1, 2011, and applies to tax year 2011 and beyond.

Fiscal Summary

State Effect: Minimal decrease in general fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues in FY 2012 and beyond. No effect on expenditures.

Local Effect: Minimal decrease in local highway user revenues distributed from the corporate income tax beginning in FY 2012. No effect on expenditures.

Small Business Effect: Minimal.

Analysis

Current Law: Chapter 7 of 1998 allows an employer to claim a credit equal to 5% of the costs incurred to provide long-term care insurance as part of an employee benefit package. The amount of the credit may not exceed the lesser of $5,000 or $100 for each employee in the State covered by one of these long-term care insurance policies. The tax credit can be claimed by a business against the State income tax and by a nonprofit organization for State income tax due on unrelated business income. Any amount of the credit claimed cannot exceed the tax liability for that tax year. Any unused amount of the credit can be carried forward for five tax years.

Background: Long-term care typically provides for the medical, social, personal, and supportive services needed by people who have lost some capacity for self-care because of a chronic illness or condition. This includes services provided by nursing homes, hospices, and at-home care but does not include medical care for acute conditions. The population of long-term care recipients includes (1) the elderly; (2) the functionally and developmentally disabled; and (3) individuals suffering from mental disorders such as dementia and Alzheimer's.

Chapter 7 of 1998 and Chapter 242 of 2000 provided tax incentives for the purchase of long-term care insurance policies. Chapter 242 of 2000 allowed taxpayers to claim a credit against the State income tax for 100% of the premiums paid for long-term care insurance, not to exceed $500, provided the individual was not covered by a long-term care insurance policy at any time before July 1, 2000. The credit may only be claimed once with respect to any policy. In tax year 2009, 5,081 returns claimed $2.7 million in tax credits.

The federal Health Insurance Portability and Accountability Act of 1996 established favorable tax treatment for long-term care insurance similar to that granted to accident and health insurance premiums. Employee-paid premiums are treated as unreimbursed medical expenses that are potentially deductible from income along with other unreimbursed medical expenses. As such, if an individual itemizes deductions, the premiums are deductible to the extent that the individual's uncompensated medical expenses exceed 7.5% of the individual's adjusted gross income. The deduction is subject to the annual limitations described in Section 213 (d)(10).

State Revenues: This bill expands the existing tax credit by increasing the maximum value of the credit beginning in tax year 2011. In tax years 2002 through 2008, a value total of about $40,000 in credits has been claimed. Expanding the value of the credit is not expected to impact revenues significantly; as such, State revenues may decrease minimally in fiscal 2012 and beyond.

Additional Information

Prior Introductions: HB 182 of 2007 and HB 665 of 2006 received a hearing in the House and Ways Means Committee, but no further action was taken.

Cross File: None.

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

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