HB 1300

Department of Legislative Services

2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1300 (Delegate C. Howard, *et al.*)

Ways and Means Budget and Taxation

Task Force to Study Long-Term Care Insurance Premiums

This bill establishes the Task Force to Study Long-Term Care Insurance Premiums, to be staffed by the Department of Aging. The task force must (1) study long-term care insurance enrollment in the State; (2) consider any reductions in State costs associated with the purchase of long-term care insurance; (3) consider the effect of a State income tax credit on long-term care insurance premiums to increase enrollment; and (4) make recommendations on methods to increase enrollment in long-term care insurance. By December 31, 2016, the task force must report its findings and recommendations to the Governor and General Assembly.

The bill takes effect June 1, 2016, and terminates June 30, 2017.

Fiscal Summary

State Effect: Any reimbursements for task force members and staffing costs for the Department of Aging are assumed to be minimal and absorbable within existing budgeted resources. No impact on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: For federal income tax purposes, individuals may deduct or otherwise exclude from income eligible long-term care insurance premiums. These federal tax benefits reduce federal adjusted gross income, which in turn will also generally reduce State and local income taxes by flowing through to Maryland adjusted gross income. In addition, the State also provides additional tax benefits as discussed below.

Federal Tax Benefits

The federal Health Insurance Portability and Accountability Act of 1996 established favorable tax treatment for long-term care insurance premiums similar to that granted to accident and health insurance premiums. 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 generally exceed 10% of the individual's adjusted gross income. Premiums may also qualify for pretax reimbursement plans such as health savings accounts. The value of these tax benefits is subject to the annual limitations described in Section 213(d)(10) of the Internal Revenue Code.

Federal tax law also provides for the deductibility of employer-paid long-term insurance premiums under certain guidelines.

State Tax Benefits

Chapter 242 of 2000 allows taxpayers to claim a one-time credit against the State income tax for 100%, not to exceed $500, of the eligible premiums paid for long-term care insurance for coverage of the individual or the individual's spouse, parent, stepparent, child, or stepchild. The credit may not be claimed by more than one taxpayer with respect to the same insured individual and can only be claimed on behalf of a State resident. In addition, the credit may not be claimed with respect to an insured individual if (1) the insured individual was covered by long-term care insurance at any time before July 1, 2000, or (2) the credit has been claimed by any taxpayer for any individual's long-term care insurance policy in any prior taxable year. Any unused amount of the credit may not be carried forward to any other tax year.

In addition, Chapter 7 of 1998 created a tax credit equal to 5% of an employer's cost for providing long-term care insurance benefits to employees. The credit is capped at $5,000 or $100 per employee covered. This credit may be used by an employer against the public service company franchise tax, the insurance premium tax, or individual and corporate income taxes.

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 the elderly, the functionally and developmentally disabled, and individuals suffering from mental disorders such as dementia and Alzheimer's.

Due to the aging of the population, long-term care utilization is expected to increase significantly in the near future. The Kaiser Commission on Medicaid and the Uninsured estimated that of the $169 billion in long-term care spending in 2005, a little less than three-quarters was for nursing home expenditures. A recent University of Pennsylvania study noted that the heavy burden on governments to finance long-term care has prompted proposals to make long-term care more affordable through tax incentives. The study concluded that the effectiveness of these proposals in stimulating long-term care insurance depended on the availability of Medicaid and the price elasticity of the insurance. The study concluded that subsidies had a modest impact on increasing the total number of policies purchased; reducing the cost of insurance by one-half was estimated to increase the number of long-term care insurance policies by less than 5%.

The number of returns claiming the existing tax credit and the number and amount of credits claimed are listed in **Exhibit 1**.

Exhibit 1
Long-term Care Insurance Tax Credits
2000-2013

Tax Year	Returns	Credits	Amount Claimed ($ in Millions)	Average Credit Claimed
2000	2,537	3,658	$1.6	$442
2001	5,185	7,032	3.0	433
2002	8,691	12,367	5.1	409
2003	12,756	18,964	8.4	445
2004	6,221	10,238	4.5	442
2005	8,470	11,751	5.3	447
2006	6,192	8,210	3.6	440
2007	6,089	7,778	3.3	431
2008	5,172	6,735	2.9	426
2009	5,081	6,527	2.7	421
2010	5,098	6,546	2.8	428
2011	5,729	7,527	3.3	437
2012	5,014	6,553	2.9	442
2013	5,239	6,753	2.9	427
Total	**87,474**	**120,639**	**$52.3**	**$459**

In addition to reporting data on the amount of credits claimed in each year, the Comptroller's Office is required to report the savings under the State medical assistance program as a result of additional individuals being covered by long-term care insurance as a result of the credit. The report states that although the additional number of individuals who are covered by insurance as a result of the credit is unknown, little if any savings to the State are likely at this point.

Additional Information

Prior Introductions: None.

Cross File: SB 896 (Senator Klausmeier, *et al.*) - Budget and Taxation.

Information Source(s): Comptroller's Office, Internal Revenue Service, Kaiser Commission on Medicaid and the Uninsured, Society of Actuaries, University of Pennsylvania, Department of Legislative Services

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