SB 75

Department of Legislative Services
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 75 (Senator Klausmeier)
Budget and Taxation

Income Tax - Credit for Long-Term Care Premiums

This bill alters the existing one-time long-term care insurance premiums income tax credit by allowing the credit to be claimed for every year a policy is in force. In tax years 2019 and 2020, individuals can claim a maximum credit of $250 for each year the policy is in effect; the maximum credit that can be claimed is increased to $500 beginning in tax year 2021. The changes in the credit are applicable only to policies issued after December 31, 2018. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund revenues increase by $1.3 million in FY 2020, which reflects a net decrease in the amount of credits claimed as a result of decreasing the value of the credit in the first tax year. General fund revenues decrease beginning in FY 2021 reflecting additional losses from allowing the credit to be claimed in successive years and increases in the value of the credit specified by the bill. Expenditures are not affected.

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	$0	$1.3	($0.3)	($5.9)	($8.8)
Expenditure	0	0	0	0	0
Net Effect	$0.0	$1.3	($0.3)	($5.9)	($8.8)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: For federal income tax purposes, individuals may deduct or otherwise exclude from income eligible long-term care insurance premiums. This reduces 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 care 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.

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**.

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.

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**

State Revenues: The bill alters the existing tax credit in tax years 2019 and 2020 by allowing individuals to claim a maximum credit of $250 for each year the policy is in effect and not just $500 in the first tax year as provided under current law. Beginning in tax year 2021, a taxpayer may claim a maximum credit of $500 for each year the policy is in effect. These changes are applicable to individuals who were not covered by long-term care insurance at any time before January 1, 2019. As a result, general fund revenues will increase by an estimated $1.3 million in fiscal 2020. General fund revenues will decrease beginning in fiscal 2021 as revenue losses from allowing the credit to be claimed in each year a policy is in effect are greater than the revenue gains resulting from the decrease in the value of the credit in the first year. This estimate is based on the following facts and assumptions:

- It is estimated that, under current law, a total of $3.0 million in credits will be claimed in tax year 2019 and increase by about 1.5% annually thereafter.
- An average credit of $431 was claimed in tax years 2009 through 2013 – it is assumed that the maximum credit of $250 will be claimed in tax years 2019 and

2020, and that the average amount of the credit will be claimed in tax year 2021, with 1% annual growth thereafter.

- The estimated number of policies in force in successive years is based on the renewal rates of long-term care insurance policies as reported by the Society of Actuaries.

Allowing the credit to be claimed in every year in which the policy is in effect will substantially increase long-term revenue losses resulting from the credit. For example, New York and Oregon allow taxpayers to claim the credit in a similar manner as proposed by the bill. Taxpayers will claim an estimated $75 million in tax credits in New York and $19 million in Oregon, compared with the current average of $3 million in Maryland. The amount of credits claimed in these states, adjusting for differences in the value of credits, population, age, and other factors, suggests that over the long term, the bill will result in over $20 million in credits claimed on an annual basis.

Additional Information

Prior Introductions: SB 432 of 2017, SB 896 of 2016, and SB 6 of 2015 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. HB 822 of 2015 received a hearing in the House Ways and Means Committee, but no further action was taken. Similar bills were also introduced in the 2010 through 2014 sessions.

Cross File: None.

Information Source(s): Comptroller's Office; Internal Revenue Service; Kaiser Commission on Medicaid and the Uninsured; New York State Division of the Budget; Oregon Department of Revenue; Society of Actuaries; University of Pennsylvania; Department of Legislative Services

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