HB 609

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 609 (Delegate Morgan, *et al.*)
Ways and Means

Income Tax - Credit for Long-Term Care Premiums

This bill expands the existing one-time long-term care insurance premiums income tax credit by (1) allowing individuals who were covered by long-term care insurance at any time before July 1, 2000, to claim the credit and (2) allowing the credit to be claimed for every year a policy is in force. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by at least $44.0 million in FY 2020 due to the proposed expansion of the tax credit. Future year revenue losses reflect the projected number of eligible policies. Expenditures are not affected.

($ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	($44.0)	($45.5)	($47.0)	($48.5)	($50.0)
Expenditure	0	0	0	0	0
Net Effect	($44.0)	($45.5)	($47.0)	($48.5)	($50.0)

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 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. While most private long-term care insurance is purchased by higher income individuals, purchase rates among the highest income elderly individuals are still relatively low despite the potential costs of long-term care. 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: This bill expands the existing tax credit by allowing individuals to claim the credit for every year the policy is in effect and not just one time as provided under current law and by allowing individuals who were insured before July 1, 2000, to qualify for the credit. The expansion is effective beginning with tax year 2019. As a result, general fund revenues will decrease by at least $44.0 million in fiscal 2020. This estimate is based on the following facts and assumptions:

- An average credit of $431 was claimed in tax years 2009 through 2013 – it is assumed that the average credit will be claimed in tax year 2019, with 1% annual growth thereafter.
- In tax years 2000 through 2018 an estimated $67.0 million in credits were claimed.
- 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.

Additional revenue losses will occur from policies issued before July 1, 2000, and from policies that were issued after calendar 2000 but did not claim the tax credit previously.

Additional Information

Prior Introductions: HB 1799 of 2018 was not reported from the House Rules and Executive Nominations Committee.

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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