

Department of Legislative Services
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1237
Ways and Means

(Delegate Howard, *et al.*)

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 2023 and 2024, 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 2025. The changes in the credit are applicable only to policies issued after December 31, 2022. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: No impact in FY 2023. General fund revenues increase by \$1.0 million in FY 2024, 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 2025, 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 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	\$0	\$1.0	(\$0.1)	(\$4.7)	(\$7.1)
Expenditure	0	0	0	0	0
Net Effect	\$0.0	\$1.0	(\$0.1)	(\$4.7)	(\$7.1)

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: 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 general, taxpayers claim the existing one-time credit in the year in which the policy was purchased – tax year 2022 tax credit claims will reflect the policies purchased for the first time within the same calendar year.

State Revenues: The bill alters the existing tax credit in tax years 2023 and 2024 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 2025, 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, 2023. It is assumed that, in tax year 2022, individuals claim the tax credit as provided under current law. As a result, general fund revenues will increase by an estimated \$1.0 million in fiscal 2024. General fund revenues will decrease beginning in fiscal 2025 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 tax years 2023 and 2024.

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 allows taxpayers to claim the credit in a similar manner as proposed by the bill. The amount of credits claimed in New York, 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: HB 1377 of 2021 was referred to the House Rules and Executive Nominations Committee, but no further action was taken. SB 786 of 2020 and SB 650 of 2019 received a hearing in the Senate Budget and Taxation Committee, but no further

action was taken. HB 1365 of 2020 and HB 836 of 2019 received a hearing in the House Ways and Means Committee, but no further action was taken. Similar bills were also introduced in the 2015 through 2018 sessions.

Designated Cross File: None..

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

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