



Peter Franchot
Comptroller

David F. Roose
Director
Bureau of Revenue Estimates

January 23, 2009

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21404

Honorable Thomas V. Miller, Jr.
President of the Senate
State House
Annapolis, Maryland 21404

Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21404

Dear Governor, President and Speaker:

As required by Tax – General §10-211.1 of the Annotated Code of Maryland, I am submitting this report on the impact of the Kids First Act, which was enacted during the 2008 session of the Maryland General Assembly (House Bill 1391, Chapter 692). The law requires the Maryland Health Care Commission and the Office of the Comptroller to study the following:

- The number of Maryland families, by income level, claiming the State income tax exemption for dependent children;
- The value to a family of the State income tax exemption for dependent children, by income level; and
- The effect of the provisions of §10-211.1 of the Tax-General Article on the number and percentage of children in the State who are uninsured.

This report was prepared in conjunction with and using information provided by the Maryland Health Care Commission (MHCC).

The Comptroller's Office is in the process of sending the required notification to individuals in the applicable income ranges and who claimed a dependent exemption for a child for tax year 2007. This notice, in both English and Spanish, provides instructions about how to obtain an application for medical assistance from, and information about, the Maryland Medical Assistance for Families program, and how to submit a completed application. Attachment #1 is a copy of the letter sent to all of the 154,709 taxpayers who reported a federal adjusted gross

income that was less than 116% of the federal poverty line (FPL), which is the new income ceiling for adult eligibility to the Maryland Medical Assistance Program.

The number of calls that would be generated from the mailings was unknown; therefore, the letters mailed were initially limited to groups of 10,000 every two weeks to keep the workload manageable for the Department of Health and Mental Hygiene (DHMH). Based on the number of calls actually received during the first month, this number was increased to 25,000 in the second month and to 28,000 in the third month. The final 28,709 letters for this first group of taxpayers were sent out on December 8. As of mid-January, after receiving approval to proceed from DHMH, about 75,000 of the remaining 291,881 notices for taxpayers potentially eligible for the Maryland Medical Assistance Program (those with incomes between 116% and 300% of the federal poverty levels) had been mailed. All of these notices should be mailed by the end of March.

A checkbox was added to the tax year 2008 tax return (Attachment #2) so that taxpayers, as required by law, can indicate whether each dependent was sufficiently covered by health insurance during the tax year. Tax year 2008 returns are due in calendar year 2009; data from those returns won't be available until then and will be included in next year's report.

Attachment #3 provides the number of tax year 2006 returns (the latest year for which such detailed data is available), by various federal adjusted gross income levels, upon which an exemption was claimed for a dependent child. One dependent child was claimed on returns filed by 434,227 taxpayers, two dependent children were claimed on 364,245 returns and three or more dependent children were claimed on 166,506 returns.

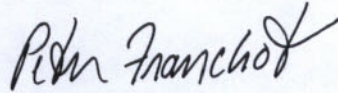
The value of an exemption claimed for one dependent child at certain income levels is shown in Attachment #4. These values are calculated using the tax year 2008 tax rates and brackets, which include the 6.25% tax rate that is applied to taxable income of more than \$1 million. In addition to taxable income, the applicable rate depends on the taxpayer's filing status, and the amount of the exemption depends on the taxpayer's federal adjusted gross income (the amount allowed is reduced as income increases).

Certain information about Maryland's uninsured is presented in a biennial report, *Health Insurance Coverage in Maryland Through 2007*, prepared by MHCC's Center for Analysis and Information Services. According to this report, approximately 10% of Maryland's 1.46 million children were uninsured during the 2006-2007 time frame.

An analysis of the effect of the provisions of §10-211.1 of the Tax-General Article on the number and percentage of children in the State who are uninsured cannot be made until data is available for calendar year 2007. At that time, the analysis will be limited to a comparison of the number and percentage of uninsured children in 2007 and 2008. Conclusions drawn about the meaning of any increase or decrease between those years will be only speculative since changes could be attributable, in part or wholly, to factors other than Tax-General Article §10-211.1, including changes in certain segments of Maryland's population and the effect of the recession on income and insurance coverage.

I hope this information is useful to you. If you have any questions or concerns, please contact my office or David F. Roose, the Director of the Bureau of Revenue Estimates, who prepared this analysis.

Sincerely,

A handwritten signature in black ink that reads "Peter Franchot". The signature is written in a cursive style with a prominent loop at the end of the last name.

Peter Franchot
Comptroller of Maryland

cc: Delegate Peter A. Hammen
Linda L. Tanton
Len N. Foxwell