



**Peter Franchot**  
*Comptroller*

January 4, 2010

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, the Maryland Health Care Commission (MHCC) and the Office of the Comptroller submit 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 MHCC 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 reflects the collaboration of the Maryland Health Care Commission and the Office of the Comptroller.

In the fall of 2008, the Office of the Comptroller sent 446,590 letters to Maryland residents with Federal Adjusted Gross Income (FAGI) below 300 percent of the Federal Poverty Level (FPL) who claimed the State income tax exemption for dependents on their 2007 tax return. This letter, in both English and Spanish, provided instructions about how to obtain information about the Maryland Medical Assistance program. Attachment #1 presents the number of letters per county that were sent over a six month period from 2008 to 2009. Because it was not possible to determine whether the claimed dependent was below the age of 21 years, households without eligible children likely received some of these letters.

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This year, the Office of the Comptroller included a checkbox on the 2008 Maryland State tax forms 502 and 503 to determine whether, for those taxpayers claiming a dependent exemption on their tax return, the dependent was a child, and if so, whether the child had health care. Letters will be sent to both households that responded that their child(ren) did not have health care and those households who left this question blank on their State tax return. In total, 152,565 households with FAGI below 300 percent of the FPL will receive a letter and a Medical Assistance application from the Office of the Comptroller. Of these households, forty-one percent, or 62,566, reported FAGI at or below 116 percent of the FPL, meaning the parents, guardians or caretaker relatives could also be eligible for medical assistance.<sup>1</sup> Attachment #2 presents the distribution of Maryland families, by county and income level, who will receive a letter.

For residents whose FAGI is below \$100,000, a group that encompasses the vast majority of parents and children eligible for Medical Assistance, the value of a State income tax exemption claimed for each dependent child is up to \$152. This is based on a 4.75% marginal tax rate on the maximum \$3,200 per person exemption amount. To the extent that a taxpayer's Maryland Net Taxable Income (NTI) is less than the total exemption amount claimed, the actual value of the exemption is lower. In addition to NTI, the exact tax rate depends on the taxpayer's filing status, and the amount of the exemption depends on the taxpayer's reported FAGI – the exemption amount allowed is phased-out as income increases. The value of an exemption claimed for one dependent child at certain income levels, using the tax year 2008 tax rates and brackets, is shown in Attachment #3.

Attachment #4 provides the number of tax year 2007 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 440,286 taxpayers, two dependent children were claimed on 354,994 returns and three or more dependent children were claimed on 155,651 returns.

Each year, the MHCC's Center for Analysis and Information Services reviews the Annual Social and Economic Supplement data from the United States Census Bureau's Current Population Survey (CPS) to determine the number of uninsured children in Maryland. The 2008 and 2009 CPS data show that approximately 9% of Maryland's 1.43 million children were uninsured during the 2007-2008 timeframe. There is no statistically significant difference in the number of uninsured children in Maryland in this two-year period compared to the prior two-year timeframe (2005-2006). Although it is customary to perform only two-year analyses of changes at the state level, the MHCC conducted a one-year analysis of the apparent changes in the uninsured of all ages from 2007 to 2008. In spite of small sample size and high margins of error of the estimates, there was a significant decrease in the percent uninsured from 2007 to 2008 (13.7% to 12.1%, respectively), and a significant increase in Medicaid coverage (9.1% to 10.7%, respectively), verified with enrollment data. No conclusion can be reached about a significant one-year change in the number of uninsured children, however, because of very small sample sizes.

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<sup>1</sup> Under Senate Bill 6, parent, guardians and care-taker relatives with dependent children age 21 or below with incomes up to 116% of the FPL are now eligible for medical assistance.

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The data from the 2007-2008 timeframe provide a meaningful baseline against which future progress can be judged. However, a comprehensive analysis of the effect of the provisions of the Tax-General Article §10-211.1 on the number and percentage of children in the State who are uninsured cannot be made until data are available for calendar year 2009 in late 2010. At that time, the analysis will be limited to a comparison of the number and percentage of uninsured children in 2008 and 2009.

The inclusion of 2009 insurance coverage in the next CPS survey will align results with the 'outreach' time frame. However, conclusions will have to be qualified, as three factors other than the implementation of Tax-General Article §10-211.1 could contribute to observed increases or decreases between any two years. First, demographic changes in the Maryland population and the changing economic climate exert powerful influences on insurance coverage. Second, tax files and Medicaid enrollment data systems cannot be easily linked; neither Medicaid nor the Office of the Comptroller can ensure that households receiving letters are not already enrolled in Medicaid, making it impossible to determine whether the letters are being sent to households with uninsured children. Third, incomplete information on the previous insurance status of newly enrolled children in Medicaid contributes to the challenge of assessing the full impact of this legislation. These three factors will continue to make it difficult to state with complete confidence that a decrease in uninsured children is attributable to changes in Medicaid enrollment or to the letters sent by the Office of the Comptroller. However, we will continue to seek to improve our estimates given these limitations.

We hope this information is useful to you. If you have any questions or concerns, please do not hesitate to contact either of our offices.

Sincerely,



David F. Roose, Director  
Bureau of Revenue Estimates



Rex Cowdry, MD  
Maryland Health Care Commission

**Attachment 1**  
**Letters to be Sent in Response to 2007 Tax Returns**

	Letter # 1	Letter # 2	Total Letters
	Taxpayers under 116% of Federal Poverty Level	Taxpayers under 300% of Federal Poverty Level	
Allegany	2,214	3,577	5,791
Anne Arundel	9,682	20,388	30,070
Baltimore County	19,714	42,237	61,951
Calvert	1,530	3,394	4,924
Caroline	1,245	2,153	3,398
Carroll	2,295	5,761	8,056
Cecil	2,467	4,839	7,306
Charles	3,088	6,521	9,609
Dorchester	1,632	2,235	3,867
Frederick	3,895	9,199	13,094
Garrett	1,011	1,763	2,774
Harford	4,650	10,186	14,836
Howard	3,945	8,315	12,260
Kent	541	903	1,444
Montgomery	18,969	38,418	57,387
Prince George's	26,948	58,982	85,930
Queen Anne's	831	1,804	2,635
St. Mary's	2,376	4,235	6,611
Somerset	1,091	1,307	2,398
Talbot	985	1,641	2,626
Washington	4,220	7,776	11,996
Wicomico	4,030	5,550	9,580
Worcester	1,645	2,316	3,961
Baltimore City	35,705	48,381	84,086
<b>Total</b>	<b>154,709</b>	<b>291,881</b>	<b>446,590</b>

**Attachment 2**  
**Letters to be Sent in Response to 2008 Tax Returns**

<b>Status as of 10/30/2009</b>			
	Letter # 1	Letter # 2	
	Taxpayers under 116% of Federal Poverty Level	Taxpayers under 300% of Federal Poverty Level	Total Letters
Allegany	613	660	1,273
Anne Arundel	3,612	5,668	9,280
Baltimore County	7,925	12,375	20,300
Calvert	415	681	1,096
Caroline	374	504	878
Carroll	746	1,130	1,876
Cecil	712	940	1,652
Charles	1,355	2,267	3,622
Dorchester	408	446	854
Frederick	1,396	2,248	3,644
Garrett	255	336	591
Harford	1,453	2,268	3,721
Howard	1,563	2,497	4,060
Kent	170	213	383
Montgomery	9,098	14,745	23,843
Prince George's	13,000	22,282	35,282
Queen Anne's	400	622	1,022
St. Mary's	787	1,014	1,801
Somerset	341	327	668
Talbot	219	326	545
Washington	1,131	1,663	2,794
Wicomico	1,030	1,081	2,111
Worcester	502	501	1,003
Baltimore City	15,061	15,205	30,266
<b>Total</b>	<b>62,566</b>	<b>89,999</b>	<b>152,565</b>

**Attachment #3**

**Value to Taxpayer of Exemption by Income Class**

**Joint, Head of Household & Qualified Widow(er)**

<b>Federal Adjusted Gross Income</b>	<b>Exemption Amount</b>	<b>Net Taxable Income</b>				
		<b>Less than \$200,000 (4.75% Rate)</b>	<b>\$200,000 \$350,000 (5% Rate)</b>	<b>\$350,000 \$500,000 (5.25% Rate)</b>	<b>\$500,000 \$1,000,000 (5.5% Rate)</b>	<b>Over \$1,000,000 (6.25% Rate)</b>
under \$150,000	3,200	152	160	168	176	200
\$150,000-\$175,000	2,400	114	120	126	132	150
\$175,000-\$200,000	1,800	86	90	95	99	113
\$200,000-\$250,000	1,200	57	60	63	66	75
\$250,000 and over	600	29	30	32	33	38

**Single, Married Filing Separately, Dependent\***

<b>Federal Adjusted Gross Income</b>	<b>Exemption Amount</b>	<b>Net Taxable Income</b>				
		<b>Less than \$150,000 (4.75% Rate)</b>	<b>\$150,000 \$300,000 (5% Rate)</b>	<b>\$300,000 \$500,000 (5.25% Rate)</b>	<b>\$500,000 \$1,000,000 (5.5% Rate)</b>	<b>Over \$1,000,000 (6.25% Rate)</b>
under \$100,000	3,200	152	160	168	176	200
\$100,000-\$125,000	2,400	114	120	126	132	150
\$125,000-\$150,000	1,800	86	90	95	99	113
\$150,000-\$200,000	1,200	57	60	63	66	75
\$200,000 and over	600	29	30	32	33	38

\*Although dependent taxpayers cannot claim a personal exemption, there are rare circumstances under which they may claim an exemption for a dependent.

Note: The above information assumes that the amount claimed as an exemption falls wholly within the applicable net taxable income range, and therefore the full amount would have otherwise been taxed at the applicable rate. If that is not the case, the benefit to the taxpayer will be slightly different.

**Attachment #4**

**Number of Tax Year 2007 Returns  
with One or More Children Claimed as a Dependent  
Residents Only**

<b>Number of Returns</b>					
<b>Federal Adjusted Gross Income</b>		<b>With 1 Exemption</b>	<b>With 2 Exemptions</b>	<b>With 3 or more Exemptions</b>	<b>Total</b>
Less than	25,000	121,070	79,484	23,626	224,180
25,000 -	50,000	109,685	75,840	35,168	220,693
50,000 -	75,000	67,889	47,638	24,789	140,316
75,000 -	100,000	48,070	41,477	20,230	109,777
100,000 -	125,000	32,865	33,410	15,602	81,877
125,000 -	150,000	19,927	22,432	10,236	52,595
150,000 -	175,000	12,519	15,446	6,762	34,727
175,000 -	200,000	8,035	10,249	4,249	22,533
200,000 -	250,000	8,412	11,036	4,893	24,341
250,000 -	500,000	8,487	12,680	6,429	27,596
500,000 -	1,000,000	2,162	3,448	2,269	7,879
Over	1,000,000	1,165	1,854	1,398	4,417
<b>Total</b>		<b>440,286</b>	<b>354,994</b>	<b>155,651</b>	<b>950,931</b>