



Peter Franchot
Comptroller

David Roose
Director
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January 3, 2011

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis MD 21401

Honorable Thomas V. "Mike" Miller, Jr.
President, Senate of Maryland
State House
Annapolis MD 21401

Honorable Michael E. Busch
Speaker, Maryland House of Delegates
State House
Annapolis MD 21401

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 Maryland Health Care Commission and the Office of the Comptroller to study the following:

- The number 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.

The enclosed report presents data on these three main aspects of the Kids First Act.

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

Kids First Act Report 2011

Outreach using Dependent Tax Exemption Claims

In the fall of 2008 and early 2009, 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) and who claimed the State income tax exemption for dependents on their 2007 tax return (see Attachment #1). This letter, in both English and Spanish, provided instructions regarding how to obtain information about and an application for the Maryland Medical Assistance for Families program. Although these first letters were intended to primarily reach families with dependents below the age of 21 – which, at the time, was the age requirement for Maryland Medical Assistance for Families – some letters would have gone to households with only older dependents as a result of an inability to identify the age of the claimed dependents. Letters would also have gone to some families whose dependents already had health care.

On the 2008 Maryland State income tax forms 502 and 503, a checkbox was added 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. The taxpayer was asked to first check a box if their dependent was a child, and, if so, to check a second box indicating yes or no to the question: “[D]oes child have health care?” In late 2009, letters were sent both to 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, provided that their FAGI was below 300 percent of the FPL. Based on their response to the above question and their reported FAGI on their tax year 2008 returns, 152,565 households received a letter and a Medical Assistance application from the Office of the Comptroller. Of these households, 62,566 – or 41 percent – reported FAGI at or below 116 percent of the FPL, meaning the parents, guardians or caretaker relatives could also be eligible for medical assistance.¹ Attachment #2 presents the distribution of Maryland families, by county and income level, who received a letter. Just as the Comptroller’s office had difficulty identifying dependent children on the 2007 tax return, the Comptroller’s office had no way of distinguishing between households with children dependents who were under 19 – thus meeting the current age requirement for Maryland’s Medical Assistance for Families – and households with children dependents who were 19 or older; therefore, letters may have gone to households that were ineligible for Medicaid.

On the 2009 return, two revisions were made to the language of the checkbox in order to more accurately identify those households that are eligible to receive a letter. On the 2009 Maryland State income tax forms, the taxpayer was asked to check a box if their dependent was under the age of 19, and, if so, to check a box indicating yes or no to the question: “[D]oes child have health insurance now?” These revised questions provide more specific information about the age of the claimed dependent, as well as the period in which the dependent was covered. In late 2010, based on their 2009 tax returns, 145,977 households with FAGI below 300 percent FPL received a Maryland Medical Assistance application from the Office of the Comptroller. Of these households, 61,869 – or 42 percent – have incomes at or below 116 percent FPL. Attachment #3 presents the distribution of Maryland families, by county and income level, who received a letter in 2010. Overall, 6,588 fewer families received a letter in 2010. It cannot be determined if the decline is attributable to the significant changes in the wording of the checkbox questions, an increase in the number of children with health care coverage, or a combination of the two.

¹ Under Chapter 7, Acts of 2007, parent, guardians and care-taker relatives with dependent children and with incomes up to 116% of the FPL are now eligible for medical assistance.

Attachment #4 provides the number of tax year 2008 and 2009 returns, by various federal adjusted gross income levels, upon which the taxpayer answered affirmatively to the first question regarding dependents on either their 2008 or 2009 tax returns. In tax year 2009, 39,695 fewer taxpayers claimed one dependent on their returns than in tax year 2008, 5,625 fewer families claimed two dependent children, and 114 more families claimed three or more dependent children on their returns. In total, 71,322 fewer families claimed dependent children in tax year 2009 than in tax year 2008. Again, the different language used for the checkboxes on the 2008 and 2009 Maryland state tax forms 502 and 503 may have contributed to the decline in families claiming dependent children.

Value of State Income Tax Exemption for Dependent Children

For residents whose FAGI is below \$100,000, a group that encompasses the vast majority of parents and children eligible for Medical Assistance, the maximum value of a State income tax exemption claimed for each dependent child is \$152. This is based on a 4.75% marginal tax rate on the maximum \$3,200 per person exemption amount. The exact tax rate depends on the taxpayer's filing status and level of Maryland Net Taxable Income. In addition, the amount of the exemption depends on both the taxpayer's filing status and reported FAGI; the exemption amount allowed is phased-out as income increases. To the extent that a taxpayer's Maryland Adjusted Gross Income (MAGI) is less than the total exemption amount claimed, the actual value of the exemption is lower. The maximum value of an exemption claimed for one dependent child at certain income levels, using the tax year 2009 tax rates and brackets, is shown in Attachment #5.

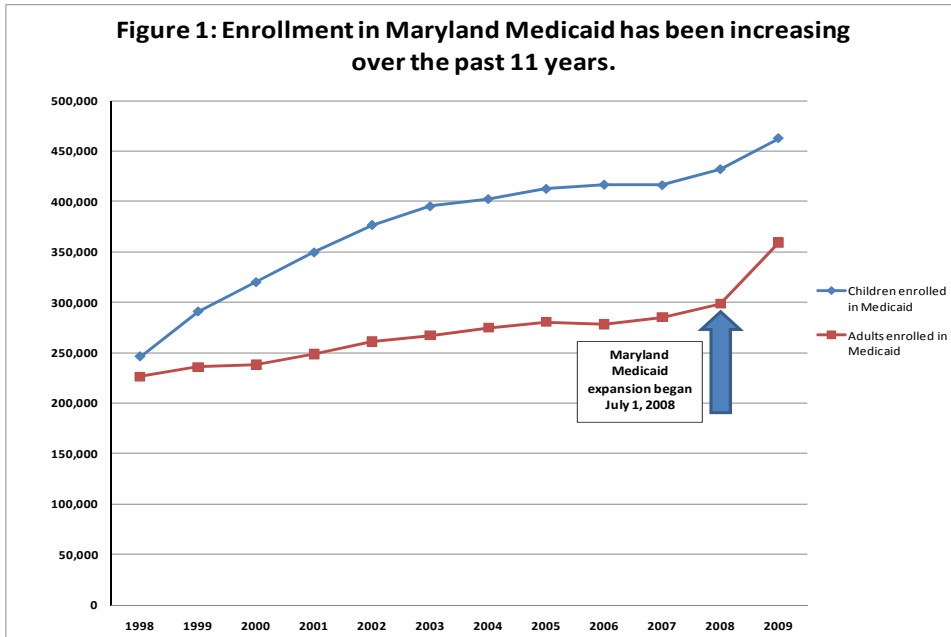
The tables in Attachment #6 through Attachment #9 are comprised of the data received from tax year 2008 and 2009 returns where the taxpayer answered affirmatively to the first checkbox question regarding dependents. These tables display information about the number of exemptions claimed, the actual dollar value of these exemptions to the taxpayer – after limiting the exemption claimed to Maryland adjusted gross income – and the health care status of the dependents. Attachment #6 groups returns by household income as a percent of the Federal Poverty Level for all 2008 and 2009 returns. The tables in Attachment #7 are made up of returns with FAGI below 300 percent FPL for 2008 and 2009, and are grouped by different FAGI levels. Attachment #8 and Attachment #9 contain exemption and checkbox data broken down by county for 2008 and 2009, respectively.

It bears repeating that in all of the above tables comparing tax year 2008 and 2009 data, differences in the data may be partially explained by the different wording used for the checkbox regarding that taxpayer's dependents.

Impact on Uninsured Children

Each year, the MHCC's Center for Analysis and Information Services reviews the Annual Social and Economic Supplement of the U.S. Census Bureau's Current Population Survey data to determine the number of uninsured children in Maryland. Based on the 2010 report, approximately 7% of Maryland's 1.42 million children were uninsured during 2009. There is no evidence of a statistically significant change in the number of uninsured children in Maryland, but the sample size is small, and year-to-year changes are therefore statistically unreliable.

Medicaid administrative data provides a better source of information. Medicaid enrollment for children (under 19 years old) shows a substantial increase in 2009 (Figure 1). However, this increase in Medicaid enrollment of children reflects not only the effect of the Kids First Act, but also the effects of the recession, the steadily increasing cost of employer-sponsored health insurance, and most notably the 2008 expansion of the Medicaid program to include higher income parents and caretaker relatives. It is commonly believed that one way to increase the enrollment of children is to cover their parents, and the increase in Medicaid enrollment of children may have resulted in part from the even larger increase in Medicaid enrollment of parents and caretaker relatives.



Source: Maryland Medical eHealth Statistics, <http://www.chpdm-ehelath.org/eligibility/new/index.cfm>

During the 2010 legislative session, the Kids First Act was amended, repealing the sunset of the law and extending it another three years. The law also will permit the Comptroller's office to provide Maryland Medicaid with income and identity data about taxpayers

who opt in to sharing their tax data and claim an exemption for an uninsured child younger than 19. Medicaid may then be able to track Medicaid enrollment for uninsured children identified through the State tax return.

Attachment #1
Letters 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
Total	154,709	291,881	446,590

Attachment #2
Letters Sent in Response to 2008 Tax Returns

Status as of 10/30/2009			
	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
Total	62,566	89,999	152,565

Attachment #3
Letters Sent in Response to TY 2009 Returns

Status as of 9/1/2010	Letter # 1	Letter # 2	
	Taxpayers under 116% of Federal Poverty Level	Taxpayers under 300% of Federal Poverty Level	Total Letters
Allegany	634	688	1,322
Anne Arundel	3,491	5,406	8,897
Baltimore County	7,774	11,288	19,062
Calvert	403	642	1,045
Caroline	349	471	820
Carroll	633	1,087	1,720
Cecil	697	943	1,640
Charles	1,353	2,164	3,517
Dorchester	408	381	789
Frederick	1,362	2,146	3,508
Garrett	237	306	543
Harford	1,459	2,202	3,661
Howard	1,649	2,624	4,273
Kent	163	179	342
Montgomery	8,893	13,300	22,193
Prince George's	13,739	21,148	34,887
Queen Anne's	407	555	962
St. Mary's	817	980	1,797
Somerset	383	313	696
Talbot	259	305	564
Washington	1,281	1,794	3,075
Wicomico	1,171	1,089	2,260
Worcester	513	485	998
Baltimore City	13,794	13,612	27,406
Total	61,869	84,108	145,977

Attachment #4
Number of Returns with One or More Child Claimed as a Dependent
Tax Years 2008 and 2009

Tax Year 2008 Returns				
Federal Adjusted Gross Income	With 1 Exemption	With 2 Exemptions	With 3 or More Exemptions	Total
Less than \$0	1,390	1,378	906	4,368
\$0 - \$10,000	20,804	6,436	2,253	50,875
\$10,000 - \$20,000	41,734	15,480	6,354	100,440
\$20,000 - \$30,000	39,186	17,136	8,763	100,661
\$30,000 - \$40,000	30,430	16,184	9,431	82,364
\$40,000 - \$50,000	22,533	13,681	8,286	64,046
\$50,000 - \$60,000	18,711	13,172	8,093	54,670
\$60,000 - \$70,000	16,592	12,992	7,760	47,230
Over \$70,000	126,577	142,201	73,802	368,831
Total	317,957	238,660	125,648	873,485

Tax Year 2009 Returns				
Federal Adjusted Gross Income	With 1 Exemption	With 2 Exemptions	With 3 or More Exemptions	Total
Less than \$0	1,120	1,189	799	3,566
\$0 - \$10,000	19,505	6,818	2,411	48,643
\$10,000 - \$20,000	41,189	17,909	7,414	99,310
\$20,000 - \$30,000	36,967	18,593	9,996	96,529
\$30,000 - \$40,000	27,990	16,572	9,801	77,154
\$40,000 - \$50,000	19,906	13,550	8,597	58,233
\$50,000 - \$60,000	16,376	12,465	7,881	48,755
\$60,000 - \$70,000	14,163	12,221	7,468	42,310
Over \$70,000	101,046	133,718	71,395	327,663
Total	278,262	233,035	125,762	802,163

Attachment #5
Value of Exemption to Taxpayer by Income Class

Joint, Head of Household & Qualified Widow(er)

Federal Adjusted Gross Income	Exemption Amount
under \$150,000	3,200
\$150,000-\$175,000	2,400
\$175,000-\$200,000	1,800
\$200,000-\$250,000	1,200
\$250,000 and over	600

Net Taxable Income				
Less than \$200,000 (4.75% Rate)	\$200,000 \$350,000 (5% Rate)	\$350,000 \$500,000 (5.25% Rate)	\$500,000 \$1,000,000 (5.5% Rate)	Over \$1,000,000 (6.25% Rate)
152	160	168	176	200
114	120	126	132	150
86	90	95	99	113
57	60	63	66	75
29	30	32	33	38

Single, Married Filing Separately, Dependent*

Federal Adjusted Gross Income	Exemption Amount
under \$100,000	3,200
\$100,000-\$125,000	2,400
\$125,000-\$150,000	1,800
\$150,000-\$200,000	1,200
\$200,000 and over	600

Net Taxable Income				
Less than \$150,000 (4.75% Rate)	\$150,000 \$300,000 (5% Rate)	\$300,000 \$500,000 (5.25% Rate)	\$500,000 \$1,000,000 (5.5% Rate)	Over \$1,000,000 (6.25% Rate)
152	160	168	176	200
114	120	126	132	150
86	90	95	99	113
57	60	63	66	75
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 #6

Data by Household Federal Adjusted Gross Income as a Percent of Federal Poverty Level
Tax Years 2008 and 2009

Tax Year 2008 Returns							
FAGI as Percent of Federal Poverty Level	Total # Returns	# Exemptions	Value of Exemptions	Reported Dependents			
				Total Dependents	Uninsured Dependents	Insured Dependents	Unidentified or Other
116 Percent or Below	164,079	503,304	30,199,393	286,840	118,947	167,671	222
Between 116 and 300	278,414	893,691	123,215,181	481,970	161,242	320,348	380
Above 300 Percent	430,992	1,515,756	189,132,368	725,793	125,029	600,056	708
Total	873,485	2,912,751	342,546,942	1,494,603	405,218	1,088,075	1,310

Tax Year 2009 Returns							
FAGI as Percent of Federal Poverty Level	Total # Returns	# Exemptions	Value of Exemptions	Reported Dependents			
				Total Dependents	Uninsured Dependents	Insured Dependents	Unidentified or Other
116 Percent or Below	163,783	515,387	32,507,988	288,659	96,486	176,471	15,702
Between 116 and 300	258,841	848,256	119,570,441	443,308	119,465	300,112	23,731
Above 300 Percent	379,539	1,360,992	170,026,694	627,676	87,399	513,129	27,148
Total	802,163	2,724,635	322,105,123	1,359,643	303,350	989,712	66,581

Attachment #7

Data by FAGI Class for Households with FAGI below 300% Federal Poverty Level

Tax Years 2008 and 2009

Tax Year 2008 Returns							
Federal Adjusted Gross Income	Total # Returns	# Exemptions Reported	Dollar Value of Exemptions	Reported Dependents			
				Total Dependents	Uninsured Dependents	Insured Dependents	Unidentified or Other
\$0 or Less	4,367	15,719	0	7,985	1,663	6,308	14
\$0 - \$10,000	50,873	131,209	800,693	73,749	29,417	44,278	54
\$10,000 - \$20,000	100,439	280,312	22,539,673	160,473	68,601	91,762	110
\$20,000 - \$30,000	100,660	294,573	37,081,047	164,232	65,168	98,963	101
\$30,000 - \$40,000	82,150	253,443	33,597,142	137,902	49,699	88,089	114
\$40,000 - \$50,000	50,411	174,776	23,965,340	92,237	30,084	62,075	78
\$50,000 - \$60,000	29,396	120,276	17,006,654	63,051	18,202	44,809	40
\$60,000 - \$70,000	15,282	72,404	10,454,191	39,238	10,365	28,832	41
\$70,000 or More	8,915	54,283	7,969,834	29,943	6,990	22,903	50
Total	442,493	1,396,995	153,414,574	768,810	280,189	488,019	602

Tax Year 2009 Returns							
Federal Adjusted Gross Income	Total # Returns	# Exemptions Reported	Dollar Value of Exemptions	Reported Dependents			
				Total Dependents	Uninsured Dependents	Insured Dependents	Unidentified or Other
\$0 or Less	3,565	13,187	0	6,493	1,124	5,077	292
\$0 - \$10,000	48,643	126,936	843,178	69,815	23,363	43,520	2,932
\$10,000 - \$20,000	99,310	285,680	22,684,387	160,628	54,815	97,096	8,717
\$20,000 - \$30,000	96,528	292,049	37,607,023	159,780	51,276	99,634	8,870
\$30,000 - \$40,000	77,020	243,489	33,185,896	129,359	37,687	84,597	7,075
\$40,000 - \$50,000	46,993	166,972	23,465,878	85,503	22,272	58,437	4,794
\$50,000 - \$60,000	27,387	113,325	16,331,739	57,210	12,993	40,813	3,404
\$60,000 - \$70,000	14,463	68,745	10,066,178	35,501	7,121	26,350	2,030
\$70,000 or More	8,715	53,260	7,894,149	27,678	5,300	21,059	1,319
Total	422,624	1,363,643	152,078,430	731,967	215,951	476,583	39,433

Attachment #8
Exemptions and Insurance Data by County
Tax Year 2008

Tax Year 2008 Returns							
County	Total # Returns	# Exemptions Reported	Dollar Value of Exemptions	Reported Dependents			
				Total Dependents	Uninsured Dependents	Insured Dependents	Unidentified or Other*
Allegany	8,708	29,370	3,631,351	14,777	3,019	11,758	(D)
Anne Arunde	76,610	261,022	30,986,763	131,693	30,049	101,528	116
Baltimore County	120,396	397,413	47,922,926	202,538	52,773	149,585	180
Baltimore City	92,589	271,680	31,023,481	150,681	56,300	94,310	71
Calvert	14,106	49,338	6,053,599	24,962	4,228	20,734	(D)
Caroline	4,965	16,533	2,048,382	8,515	2,132	6,383	(D)
Carroll	25,596	92,862	11,696,452	46,727	7,147	39,515	65
Cecil	14,746	50,957	6,431,730	25,860	4,947	20,913	(D)
Charles	23,348	77,812	9,632,816	39,880	12,609	27,214	57
Dorchester	4,833	15,150	1,769,313	7,821	1,873	5,948	(D)
Frederick	36,201	128,687	15,859,557	65,106	12,743	52,314	49
Garrett	3,889	13,672	1,664,506	6,846	1,311	5,535	(D)
Harford	37,346	130,309	16,294,416	65,745	12,741	52,959	45
Howard	45,210	163,388	18,124,444	81,125	15,503	65,564	58
Kent	2,364	7,759	929,599	3,935	860	3,075	(D)
Montgomery	147,989	519,073	55,216,003	258,742	69,081	189,356	305
Prince George's	142,992	448,415	54,314,221	237,273	91,719	145,339	215
Queen Anne's	6,903	24,124	2,954,232	12,165	3,396	8,769	(D)
St. Mary's	15,301	52,459	6,503,919	26,663	5,581	21,082	(D)
Somerset	2,874	8,997	1,035,330	4,658	1,302	3,356	(D)
Talbot	4,755	15,784	1,822,647	7,981	1,317	6,652	(D)
Washington	20,696	70,083	8,720,812	35,900	7,318	28,582	(D)
Wicomico	14,188	45,524	5,417,475	23,525	4,586	18,939	(D)
Worcester	6,480	20,974	2,419,771	10,612	2,404	8,208	(D)
Non-residents	400	1,366	73,197	730	273	457	0
Total	873,485	2,912,751	342,546,942	1,494,603	405,218	1,088,075	1,310

*(D) indicates disclosure issue. Number of Unidentified was subtracted from Total Dependents.

Attachment #9
Exemptions and Insurance Data by County
Tax Year 2009

Tax Year 2009 Returns							
County	Total # Returns	# Exemptions Reported	Dollar Value of Exemptions	Reported Dependents			
				Total Dependents	Uninsured Dependents	Insured Dependents	Unidentified or Other
Allegany	8,157	27,705	3,395,119	13,722	2,427	10,927	368
Anne Arunde	69,874	242,184	28,920,315	119,355	22,827	92,186	4,342
Baltimore County	109,551	368,665	44,621,011	183,182	39,559	135,525	8,098
Baltimore City	84,387	254,970	28,909,083	137,340	47,140	86,218	3,982
Calvert	12,641	44,866	5,552,079	21,916	3,343	17,900	673
Caroline	4,680	15,855	1,959,639	8,048	1,670	6,159	219
Carroll	23,207	85,623	10,790,703	41,522	4,818	35,204	1,500
Cecil	13,616	47,950	6,022,303	23,757	3,709	19,183	865
Charles	21,470	72,527	9,037,669	36,342	10,249	24,815	1,278
Dorchester	4,396	14,098	1,621,562	7,140	1,517	5,487	136
Frederick	33,520	120,982	15,040,441	59,294	8,579	48,102	2,613
Garrett	3,704	13,131	1,588,198	6,445	996	5,232	217
Harford	34,039	120,801	15,152,641	59,028	9,197	47,371	2,460
Howard	41,651	153,233	17,107,412	73,105	11,587	57,822	3,696
Kent	2,126	7,103	833,509	3,537	637	2,755	145
Montgomery	135,899	483,960	52,409,710	233,411	45,863	171,532	16,016
Prince George's	132,499	423,987	51,752,898	218,667	67,559	134,936	16,172
Queen Anne's	6,340	22,659	2,768,250	11,187	2,729	8,121	337
St. Mary's	14,260	49,783	6,141,949	24,759	4,644	19,517	598
Somerset	2,649	8,480	957,096	4,298	1,115	3,041	142
Talbot	4,440	14,967	1,762,673	7,398	1,158	5,963	277
Washington	19,452	66,759	8,231,297	33,689	6,338	26,302	1,049
Wicomico	13,261	43,490	5,174,587	22,065	3,633	17,542	890
Worcester	5,946	19,527	2,262,563	9,727	1,811	7,476	440
Non-residents	398	1,330	92,415	709	245	396	68
Total	802,163	2,724,635	322,105,123	1,359,643	303,350	989,712	66,581