COMPTROLLER
of MARYLAND
Serving the People

Peter Franchot
Comptroller

David F. Roose
Director
Bureau of Revenue Estimates

January 4, 2008

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

Honorable Thomas V. Miller
President, Senate of Maryland
State House
Annapolis, Maryland 21401

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

Gentlemen:

Chapter 242 of the Acts of 2000 requires me to report to you certain information about the income tax credit for long-term care insurance premiums paid after December 31, 1999. This report covers credits claimed for tax year 2006. Specifically, the law requires that I report:

(1) the number of individuals who have claimed the credit, the amount allowed as credits, and the additional number of individuals covered by long-term care insurance as a result of the credit; and
(2) the savings under the State's medical assistance program as a result of additional individuals being covered by long-term care insurance as a result of the credit.

This report provides actual data from the returns of taxpayers who claimed the Maryland long-term care insurance tax credit for tax year 2006. Over 8,200 credits were claimed for $3.62 million in 2006. Little if any savings to the State are likely at this point. The enclosed report provides additional details about these credits.

I hope you will find the report informative. If you have any questions, please contact my office or David F. Roose, Director of the Bureau of Revenue Estimates, who prepared this report. Mr. Roose can be reached at (410) 260-7450.

Sincerely,

Peter Franchot

Peter Franchot

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EFFECT OF MARYLAND'S CREDIT FOR LONG-TERM CARE INSURANCE PREMIUMS

A new credit against the personal income tax was created by Chapter 242 of the Acts of 2000. In addition, the new law mandated that the Comptroller report to the General Assembly the following information:

(1) The number of individuals who have claimed the credit, the amount allowed as credits, and the additional number of individuals covered by long-term care insurance as a result of the credit; and

(2) the savings under the State's medical assistance program as a result of additional individuals being covered by long-term care insurance as a result of the credit.

The credit is allowed for no more than $500 of the "eligible long-term care insurance premiums" paid on behalf of each covered individual during the tax year. Eligible premiums are defined under § 213(d)(10) of the Internal Revenue Code. Under this section, premiums are limited to certain amounts based on the age of the insured and are adjusted annually for inflation based on the medical care cost component of the Consumer Price Index. The maximum credit for those 40 or under was $280, and since eligible premiums for all other age groups exceed $500, the maximum credit for everyone over age 40 was $500. The credit is also only available for premiums paid for the taxpayer and the taxpayer's spouse, parent or stepparent, and child or grandchild.

. In 2004, it was determined that the credit had been claimed more than once for any given insured by many taxpayers. Procedures were put in place in 2005 to prevent that from occurring again, including an expansion of the data collected from these returns. In a handful of instances in 2005, credits were claimed in excess of $500 or were claimed for an individual who was not the taxpayer's spouse, child or parent. These returns were forwarded to the Comptroller's Compliance Division for appropriate action. These errors were virtually eliminated in tax year 2006 returns because they are now caught before the return is fully processed.

Table 1 shows summary data related to the credit. Of the credits claimed, 6,059 were the maximum $500 and 857 were $280, the maximum credit for those aged 40 or under–84.2% of the credits claimed were for the maximum amount allowed.

Table 1
Summary Tax Year 2006 Credit Data

Returns with One or More Credit	6,192
Number of Credits Claimed	8,210
Dollar Value of Credits Claimed	$3,615,832

Table 2 shows the distributions of ages of insured people for whom the credit was claimed. As would be expected, the majority of credits claimed are for those over 50 years of age.

Table 2
Age Distribution of Insured

40 and Under	1,162	14.2%
41 to 50	1,392	16.9%
51 to 65	4,067	49.6%
65 and Over	1,585	19.3%

Table 3 shows the distribution of the number of credits per return.

Table 3
Distribution of Number of Credits Per Return

One Credit	4,207	67.9%
Two Credits	1,962	31.7%
Three Credits	13	0.2%
Four Credits	10	0.2%

The Comptroller has no information to indicate "the additional number of individuals covered by long-term care insurance as a result of the credit." There is no way to determine the number of individuals who only purchased long-term care insurance because of the credit. Presumably, some portion of the 8,210 insured for whom the credit was claimed became insured because of the credit, but it is likely that the majority of individuals for whom the credit was claimed would have become covered in the absence of the credit (according to the trade association America's Health Insurance Plans, the number of policies grew by at least 10% annually from 1995 to 2002). In addition, and perhaps more importantly from a fiscal perspective, the Comptroller has no means of determining how many individuals who purchased the insurance solely because of the credit kept their policies in force after the first year, when the credit no longer applies.

The Comptroller also has no information as to "the savings under the State's medical assistance program as a result of additional individuals being covered by long-term care insurance as a result of the credit." To the best of our knowledge, this information does not reside in any State agency. In any case, it is possible that a small number of individuals purchased long-term care insurance because of the credit and required long-term care over the last seven years, and the State may have saved money for those individuals. But, in the early years of the credit, it is probable that the aggregate cost of the credit (for those who would have purchased long-term care insurance anyway, for those who allowed their policy to lapse, and for those who purchased the insurance solely because of the credit but have not needed long-term care) will outweigh any savings to the State.