COMPTROLLER of MARYLAND
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Honorable Robert L. Ehrlich, Jr.
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 is the first such report, which covers credits claimed for tax year 2000 through tax year 2004. Information about credits claimed for each subsequent tax year will be reported December 1 of the year following the close of each tax year. 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 returns that claimed the Maryland long-term care insurance tax credit for tax years 2000 through 2004. Over that period, the number of credits claimed has grown from almost 3,700 to almost 19,000 in 2003 before declining in 2004. Total credits have risen from $1.6 million to $4.5 million. 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.

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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 was first allowed on tax year 2000 returns, therefore this first report covers returns filed through early September 2005 for tax years 2000 through 2004. A report for each subsequent tax year will be filed by December 1st of the calendar year following the close of the tax year.

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. Those amounts, shown below, are adjusted annually for inflation based on the medical care cost component of the Consumer Price Index.

	Age				
Tax Year	40 or Under	41 to 50	51 to 60	61 to 70	71 and Over
2000	$220	$410	$820	$2,200	$2,750
2001	$230	$430	$860	$2,290	$2,860
2002	$240	$450	$900	$2,390	$2,990
2003	$250	$470	$940	$2,510	$3,130
2004	$260	$490	$980	$2,600	$3,250

Because Maryland's credit is capped at $500 per covered individual, the allowable credit will be no higher for individuals over the age of 50. By 2005 the maximum eligible premium for individuals aged 41 to 50 will exceed $500; at that time, the maximum Maryland credit will be $500 for everyone over the age of 40.

The credit may only be claimed once for any covered individual–it cannot also be claimed in any earlier, current or subsequent tax year by any taxpayer. There were many instances wherein the credit for an insured was claimed more than once in different tax years. The credit also may only be claimed for individuals who bear a certain relationship to the taxpayer–the taxpayer or the taxpayer's spouse, parent, stepparent, child or stepchild. There were many instances in which a credit was claimed for a more distant relative, such as an uncle or grandparent. In other instances, the individual was not related at all (by blood or marriage), such as a fiancé or partner. These returns have been forwarded to the Comptroller's Compliance Division for adjustment. Since the credits claimed in error on these returns will be disallowed, they have not been included in the data presented in this report.

While the net amount of the long term care insurance credit is captured from the individual income tax return by the income tax processing system, detail on the credit from Form 502CR is not. An extensive process was undertaken to manually examine and enter data from all tax returns which showed the credit, including the relationship of the insured to the taxpayer, the age of the insured, and the premium paid. In many instances, not all of this information was entered by the taxpayer. Various totals and subtotals below therefore do not reconcile, but this information is nearly complete and should provide a reliable representation of those tax returns showing the credit and those individuals for whom the credit was claimed.

Table 1 shows the number of returns claiming a credit, the number of credits claimed, and the total amount of credits claimed each year. The noticeable decline in 2004 can be explained, at least partially, by several factors. It is probable that more returns with a credit were received between the early September cutoff and the October 15 extension due date, and it is probable that at least some returns for prior years were received even after that date. Similarly, very few amended returns have yet been filed for tax year 2004. These timing issues probably do not account for the majority of the decline, however. But it is possible that the majority of people who would have been encouraged to buy long term care insurance because of the $500 (maximum) credit have done so, and so the number of new credits claimed may remain roughly stable at the 2004 level.

Table 1
Summary Credit Data

Tax Year	Number of Returns	Number of Credits	Amount of Credits
2000	2,537	3,658	$1,615,645
2001	5,185	7,032	$3,044,111
2002	8,691	12,367	$5,061,600
2003	12,756	18,964	$8,436,163
2004	6,221	10,238	$4,523,646

Table 2 shows the distribution of ages of insured people for whom the credit has been claimed. Unsurprisingly, the majority of credits were claimed for those over 50. Perhaps of interest, 691 credits were claimed over the five year period for insureds under 21 years of age.

Table 2
Age Distribution of Insured

Tax Year	Under 41	41-50	51-64	65 and Over
2000	166	317	1,786	941
2001	633	739	3,522	1,591
2002	984	1,739	6,666	2,335
2003	1,480	3,006	10,482	3,116
2004	872	1,589	5,457	1,774

Table 3 shows the distribution of the relationships of the insureds to the taxpayer. The number of children for whom the credit is claimed is expectedly low, while the number of parents for whom the credit is claimed is, unexpectedly, even lower than that for children. Several explanations may account for this, including that older individuals purchase their own insurance (as evidenced by the number of credits claimed by those 65 and over), and that many older individuals owned long-term care insurance prior to July 1, 2000, which makes them ineligible to claim the credit since the credit is intended to be an incentive to purchase long-term care insurance.

Table 3
Relationship Distribution of Insured

Tax Year	Taxpayer	Spouse	Child	Parent
2000	2,124	1,358	36	41
2001	4,421	2,358	114	65
2002	7,597	4,272	86	97
2003	11,850	6,644	135	121
2004	6,368	3,528	119	52

Table 4 shows the distribution of number of credits per return.

Table 4
Distribution of Number of Credits Per Return

Tax Year	One Credit	Two Credits	Three Credits	Four Credits
2000	2,537	1,109	11	1
2001	5,016	5,116	15	3
2002	8,705	8,900	1	0
2003	13,044	13,519	60	13
2004	7,150	8,071	46	13

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 of determining the number of individuals who only purchased long-term care insurance because of the credit. Presumably, some portion of the 52,300 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 handful of individuals purchased long-term care insurance because of the credit and required long-term care over the last five 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 (both for those who would have purchased long-term care insurance anyway 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.