



COMPTROLLER  
*of* MARYLAND  
*Serving the People*

Peter Franchot  
*Comptroller*

David F. Roose  
*Director*  
*Bureau of Revenue Estimates*

January 19, 2007

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 2005. 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 year 2005. Over 11,750 credits were claimed for \$5.25 million in 2005. 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,

William Donald Schaefer



## **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 \$270, 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 only a handful of instances, credits were claimed in excess of \$500 (less than 20) or were claimed for an individual who was not the taxpayer's spouse, child or parent (about 20). These returns have been forwarded to the Comptroller's Compliance Division for appropriate action. Last year, it was determined that the credit had been claimed more than once for any given insured by many taxpayers. Procedures have been put in place to prevent that from occurring again. In addition, the Comptroller has assessed almost \$2 million and collected over \$1.1 million from erroneously claimed credits related to that issue for tax years 2000 through 2004, as well as for credits claimed in excess of \$500 and credits claimed for ineligible relationships.

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. 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, was entered manually. 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 summary data related to the credit. Of the credits claimed, 8,871 were the maximum \$500 and 817 were \$270, the maximum credit for those aged 40 or under—82.4% of the credits claimed were the maximum amount allowed.

Table 1  
Summary Tax Year 2005 Credit Data

Returns Claiming Credit	8,470
Number of Credits Claimed	11,751
Dollar Value of Credits Claimed	\$5,250,321

Table 2 shows the distributions of ages of insured people for whom the credit has been 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	1,335	11.4%
41 to 50	2,001	17.1%
51 to 65	6,206	53.1%
65 and Over	2,138	18.3%

Table 3 shows the distribution of the relationships of the insureds to the taxpayer. Unlike three of the prior five years for which the credit was available, the number of credits claimed for parents was greater than the number of credits claimed for children, although both numbers are low in absolute terms.

Table 3  
Relationship Distribution of Insured

Taxpayer	7,631	65.2%
Spouse	3,832	32.7%
Child	97	0.8%
Parent	148	1.3%



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

Table 4  
Distribution of Number of Credits Per Return

One Credit	8,470	72.1%
Two Credits	3,212	27.3%
Three Credits	51	0.4%
Four Credits	18	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 11,751 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 six 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.