COMPTROLLER of MARYLAND
Serving the People

Peter Franchot
Comptroller

Robert J. Rehrmann
Director
Bureau of Revenue Estimates

August 23, 2022

The Honorable Lawrence J. Hogan
Governor of Maryland
State House
Annapolis, Maryland 21401

The Honorable William C. Ferguson IV
President, Maryland Senate
State House
Annapolis, Maryland 21401

The Honorable Adrienne A. Jones
Speaker, Maryland House of Delegates
State House
Annapolis, Maryland 21401

Dear Governor, President, and Speaker:

Tax-General Article § 10-718 requires the Comptroller's Office to report certain information about the income tax credit for long-term care insurance premiums paid by qualifying individuals. Specifically, the law requires that we 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 data from the returns of tax filers who claimed the Maryland long-term care insurance tax credit for tax year 2019. A total of $2.1 million was claimed for 4,780 covered individuals on the returns filed by 3,965 filers. Little if any savings to the State are likely. The attached report provides additional details about these credits. This report was prepared by William Hankins with additional assistance provided by David Farkas.

Sincerely,

Robert J. Rehrmann

80 Calvert Street • P.O. Box 466 • Annapolis, Maryland 21404-0466 • 410-260-7450 • Fax: 410-974-5221
MRS 711 (MD) or 1-800-735-2258 • TTY 410-260-7157 • bre@marylandtaxes.gov

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

Chapter 242 of 2000 created a credit against the personal income tax for long-term care insurance premiums. In addition, the Act mandated that the Comptroller report annually to the Governor and 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.

A maximum credit of $500 is allowed for the eligible long-term care insurance premiums – as defined under § 213(d)(10) of the Internal Revenue Code – paid on behalf of each covered individual during the tax year. 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. In calendar year 2019, the maximum credit is limited to $420 for those age 40 years or under and $500 for all other individuals. The credit is available not only for the insured individual and their spouse, but also for premiums paid for a parent or stepparent, child, or grandchild.

Table 1 compares the credits claimed in tax years 2018 and 2019. The number of credits decreased by 373 while the total amount claimed declined by $191,842.

Table 1
Tax Credit Claims

	Tax Year 2019	Tax Year 2018	Difference
Returns with One or More Credits	3,965	4,210	(245)
Number of Insured for whom a Credit was Claimed	4,780	5,153	(373)
Dollar Value of Credits Claimed	$2,092,325	$2,284,167	($191,842)

Table 2 shows the distribution of the credits claimed by federal adjusted gross income. More than one-half of all credits are claimed by filers with a federal adjusted gross income above $100,000.

Table 2
Credit Data by Federal Adjusted Gross Income

Federal Adjusted Gross Income	Credit Dollars	Share of Credit Dollars	Credits Claimed	Share of Credits Claimed
Up to $50,000	466,355	22.3%	1,192	24.9%
$50,001 - $100,000	497,745	23.8%	1,159	24.2%
$100,001 - $250,000	816,865	39.0%	1,780	37.2%
$250,001 - $500,000	244,837	11.7%	515	10.8%
Greater than $500,000	66,523	3.2%	134	2.8%
Total	**2,092,325**	**100%**	**4,780**	**100%**

Note: Numbers may not sum to total due to rounding.

Table 3 shows the number of credits claimed for the maximum allowable amounts. A total of 3,004 credits claimed the maximum $500 credit, a decrease of 432 compared to tax year 2018. Overall, 82.9% of the credits were for either of the maximum amounts.

Table 3
Credits Claimed by Maximum Credit Amount

40 and Under - $420	960
All Other Individuals - $500	3,004
Total	**3,964**

Table 4 shows the number of credits claimed based on the age of the insured person for whom the credit was claimed. As would be expected, most credits are claimed for those over 50 years of age. Finally, Table 5 shows the distribution of the number of credits claimed per return.

Table 4
Credit Claimed by Age of Insured Person

Unclassified	1	0.02%
40 and Under	1,294	27.1%
41 to 50	629	13.2%
51 to 64	1,591	33.3%
65 and Over	1,265	26.5%
Total Credits	**4,780**	

Note: Due to how 502CR form records are recorded the age of the 5th claimant on a given tax return is not recorded digitally and is thus labeled as "unclassified".

Table 5
Number of Credits Claimed per Return

One Credit	3,190	80.5%
Two Credits	746	18.8%
Three Credits	18	0.5%
Four+ Credits	11	0.3%
Total Returns	**3,965**	**100.0%**

We cannot determine the additional number of individuals who purchased long-term care insurance because of the credit. Presumably, some portion of qualifying individuals would not purchase the insurance without the credit. But it is unknown how many filers were on this margin. The credit represented 32% of total premium expenses in year one for the median claimant. We reference the median claimant as the average is heavily skewed due to a small number of claimants with extremely large premium expenses.

Although 32% is a substantial discount for the median claimant, the credit is available only in the first year of coverage. This limitation creates uncertainty as to the effectiveness of the credit overtime. Furthermore, as shown in Table 2, most claimants have an income above the Maryland average, suggesting that many of these individuals would likely be able to afford long-term care insurance in the absence of the credit.

Additionally, the American Association for Long-Term Care Insurance estimates 350,000 individuals bought long-term care insurance in 2018. Assuming Maryland's share of newly insured individuals is proportional to its share of the U.S. population over the age of 24, which is 1.9% in 2018, we can expect that approximately 6,628 individuals were newly insured in Maryland in 2019. As shown in Tables 1 and 4, this figure is over 38% greater than the total number of claimants this year. Possible explanations for this difference include (1) tax filers are not aware of the tax credit or how to file for it; (2) a subset of new policyholders do not have enough taxable income to claim the non-refundable credit and do not file for it; and (3) some eligible individuals were not enticed to file for the credit and so did not base their decision on the credit.

The Comptroller 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, the necessary 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 will require long-term care, and the State may have saved money in regard to those particular individuals. But it is highly probable that the total cost of the credit – likely awarded primarily to individuals who would have purchased insurance anyway – outweighs any savings to the State.