



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

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

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 2020. A total of \$1.6 million was claimed for 3,603 covered individuals on the returns of 3,039 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

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 2020, the maximum credit is limited to \$430 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 2019 and 2020. The number of credits decreased by 1,177 while the total amount claimed decreased by \$517,422.

Table 1
Tax Credit Claims

	Tax Year 2020	Tax Year 2019	Difference
Returns with One or More Credits	3,039	3,965	(926)
Number of Insured for whom a Credit was Claimed	3,603	4,780	(1,177)
Dollar Value of Credits Claimed	\$1,574,903	\$2,092,325	(\$517,422)

Table 2 shows the distribution of the credits claimed by federal adjusted gross income. More than one-half of all credits dollars 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
Less than 50,001	362,526	23.0%	913	25.4%
Up to \$50,000	382,211	24.2%	893	24.8%
\$50,001 - \$100,000	593,049	37.6%	1,292	35.9%
\$100,001 - \$250,000	193,674	12.3%	405	11.3%
\$250,001 - \$500,000	45,331	2.9%	93	2.6%
Greater than \$500,000	1,576,791	100%	3,596	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 2,263 credits claimed the maximum \$500 credit, a decrease of 741 compared to tax year 2019. Overall, 81.6% of the credits were for either of the maximum amounts.

Table 3
Credits Claimed by Maximum Credit Amount

40 and Under - \$430	675
All Other Individuals - \$500	2,263
Total	2,938

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
Credits Claimed by Age Insured Person

Unclassified	2	0.06%
40 and Under	949	26.3%
41 to 50	482	13.4%
51 to 64	1,213	33.7%
65 and Over	957	26.6%
Total Credits	3,603	

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	2,503	82.4%
Two Credits	517	17.0%
Three Credits	11	0.4%
Four+ Credits	8	0.3%
Total Returns	3,039	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 33% 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 33% 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 over time. 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 6,560 individuals were newly insured in Maryland in 2020. As shown in Tables 1 and 4, this figure is over 82% greater than the total number of claimants in the 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.

It is important to note that these statistics were likely heavily impacted by the COVID-19 pandemic which began in 2020. As such, caution should be applied when interpreting these statistics relative to the historic performance of the tax 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 required 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.