



Peter Franchot
Comptroller

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January 18, 2012

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis MD 21401

Honorable Thomas V. "Mike" Miller, Jr.
President, Senate of Maryland
State House
Annapolis MD 21401

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

Dear Governor, President and Speaker:


As required by Tax – General §10-211.1 of the Annotated Code of Maryland, the Maryland Health Care Commission (MHCC) and the Office of the Comptroller submit this report on the impact of the Kids First Act, which was enacted during the 2008 session of the Maryland General Assembly (House Bill 1391, Chapter 692). The law requires the Maryland Health Care Commission and the Office of the Comptroller to study the following:


- The number of Maryland families, by income level, claiming the State income tax exemption for dependent children;
- The value to a family of the State income tax exemption for dependent children, by income level; and
- The effect of the provisions of §10-211.1 of the Tax-General Article on the number and percentage of children in the State who are uninsured.

The enclosed report presents data on these three main aspects of the Kids First Act.

We hope this information is useful to you. If you have any questions or concerns, please do not hesitate to contact either of our offices.

Sincerely,


David F. Roose, Director
Bureau of Revenue Estimates


Ben Steffen, Acting Executive Director
Maryland Health Care Commission

Kids First Act Report 2012

Outreach using Dependent Tax Exemption Claims

In the fall of 2008 and early 2009, the Office of the Comptroller sent 446,590 letters to Maryland residents with Federal Adjusted Gross Income (FAGI) below 300 percent of the Federal Poverty Level (FPL) and who claimed the State income tax exemption for dependents on their 2007 tax return (see Attachment #1). This letter, in both English and Spanish, provided instructions regarding how to obtain information about and an application for the Maryland Medical Assistance for Families program. Although these first letters were intended to primarily reach families with dependents below the age of 21 – which, at the time, was the age requirement for Maryland Medical Assistance for Families – some letters would have gone to households with only older dependents as a result of an inability to identify the age of the claimed dependents. Letters would also have gone to some families whose dependents already had health care.

On the 2008 Maryland State income tax forms 502 and 503, a checkbox was added to determine whether, for those taxpayers claiming a dependent exemption on their tax return, the dependent was a child, and if so, whether the child had health care. The taxpayer was asked to first check a box if their dependent was a child, and, if so, to check a second box indicating yes or no to the question: “[D]oes child have health care?” In late 2009, letters were sent both to households that responded that their child(ren) did not have health care as well as households which left this question blank on their State tax return, provided that their FAGI was below 300 percent of the FPL. Based on their response to the above question and their reported FAGI on their tax year 2008 returns, 152,565 households received a letter and a Medical Assistance application from the Office of the Comptroller. Of these households, 62,566 – or 41 percent – reported FAGI at or below 116 percent of the FPL, meaning the parent; guardians or caretaker relatives could also be eligible for medical assistance.¹ Attachment #2 presents the distribution of Maryland families, by county and income level, who received a letter. Just as the Comptroller’s office had difficulty identifying dependent children on the 2007 tax return, the Comptroller’s office had no way of distinguishing between households with children dependents who were under 19 – thus meeting the current age requirement for Maryland’s Medical Assistance for Families – and households with children dependents who were 19 or older; therefore, letters may have gone to households that were ineligible for Medicaid.

On the 2009 return, two revisions were made to the language of the checkbox in order to more accurately identify those households that are eligible to receive a letter. On the 2009 Maryland State income tax forms, the taxpayer was asked to check a box if their dependent was under the age of 19, and, if so, to check a box indicating yes or no to the question: “[D]oes child have health insurance now?” These revised questions provide more specific information about the age of the claimed dependent, as well as the period in which the dependent was covered. In late 2010, based on their 2009 tax returns, 145,977 letters were sent to households from the Office of the Comptroller. Of these households, 61,869 – or 42 percent – have incomes at or below 116 percent FPL. Attachment #3 presents the distribution of Maryland families, by county and income level, who received a letter in 2010. Overall, 6,588 fewer families received a letter in 2010. It cannot be determined if the decline is attributable to the significant changes in the wording of the checkbox

¹ Under Chapter 7, Acts of 2007, parent, guardians and care-taker relatives with dependent children and with income up to 116% of the FPL are now eligible for medical assistance.

questions, an increase in the number of children with health care coverage, or a combination of the two.

As of the due date of this report, January 3, 2012, no letters have been sent to families in regard to responses on 2010 tax returns. It is anticipated that these letters will be mailed in the next few months.

Attachment #4 provides the number of tax year 2009 and 2010 individual income tax returns, by various federal adjusted gross income levels, upon which the taxpayer answered affirmatively to the first question regarding dependents. In tax year 2010, relative to tax year 2009, 950 fewer taxpayers claimed one dependent on their returns, 2,095 more families claimed two dependent children, and 3,866 more families claimed three or more dependent children on their returns. In total, the number of families claiming a dependent child in tax year 2010 increased by 6,289 from tax year 2009. Comparatively, 71,322 fewer families claimed dependent children in tax year 2009 than in tax year 2008. This greater change between tax years 2008 and 2009 may be the result of the language change on the tax year 2009 return rather than solely reflecting a change in the amount of households with dependent children. It may also reflect the impact of the recent recession, which resulted in fewer returns being filed, as recessions often do.

Value of State Income Tax Exemption for Dependent Children

For residents whose FAGI is below \$100,000, a group that encompasses the vast majority of parents and children eligible for Medical Assistance, the maximum value of a State income tax exemption claimed for each dependent child is \$152. This is based on a 4.75% marginal tax rate on the maximum \$3,200 per person exemption amount. The exact tax rate depends on the taxpayer's filing status and level of Maryland Net Taxable Income. In addition, the amount of the exemption depends on both the taxpayer's filing status and reported FAGI; the exemption amount allowed is phased-out as income increases. To the extent that a taxpayer's Maryland Adjusted Gross Income (MAGI) is less than the total exemption amount claimed, the actual value of the exemption is lower. The maximum value of an exemption claimed for one dependent child at certain income levels, using the tax year 2010 tax rates and brackets, is shown in Attachment #5.

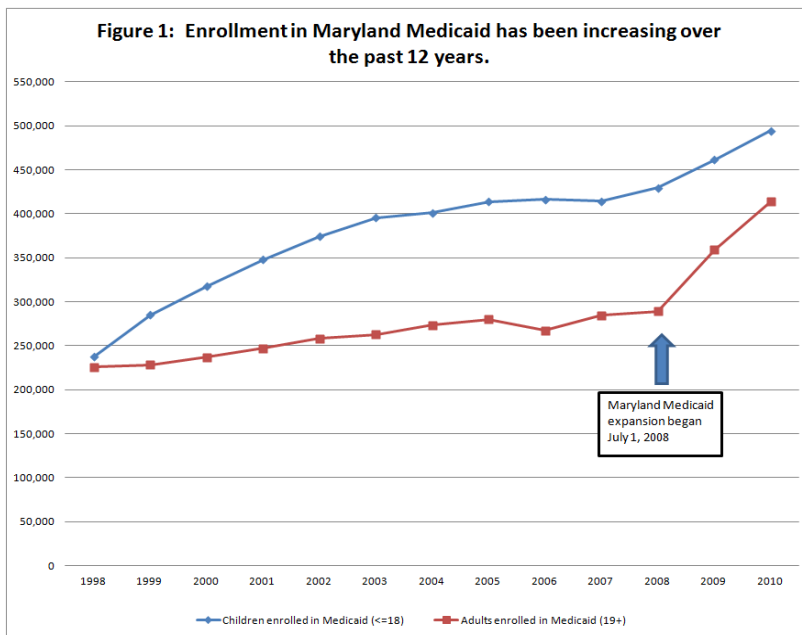
The tables in Attachments #6 through Attachment #9 are comprised of the data received from tax year 2009 and 2010 returns where the taxpayer answered affirmatively to the first checkbox question regarding dependents. These tables display information about the number of exemptions claimed, the actual dollar value of these exemptions to the taxpayer – after limiting the exemption claimed to MAGI – and the health care status of the dependents. Attachment #6 groups returns by household income as a percent of the FPL for all 2009 and 2010 returns. The tables in Attachment #7 are made up of returns with FAGI below 300 percent FPL for 2009 and 2010, and are grouped by different FAGI levels. Attachment #8 and Attachment #9 contain exemption and checkbox data broken down by county for 2009 and 2010, respectively.

It bears repeating when comparing tax year 2008 and 2009 data, differences in the data may be partially explained by the different wording used for the checkbox regarding that taxpayer's dependents as well as changes in the economy.

Impact on Uninsured Children

Each year, the MHCC's Center for Analysis and Information Services reviews the Annual Social and Economic Supplement of the U.S. Census Bureau's Current Population Survey data to determine the number of uninsured children in Maryland. Based on the 2011 report, approximately 8% of Maryland's 1.42 million children were uninsured during 2010. There is no evidence of a statistically significant change in the number of uninsured children in Maryland, but the sample size is small, and year-to-year changes are therefore statistically unreliable.

Medicaid administrative data provides a better source of information. Medicaid enrollment for children (under 19 years old) shows an increase in 2010 (Figure 1). However, this increase in Medicaid enrollment of children reflects not only the effect of the Kids First Act, but also the effects of the recession, the steadily increasing cost of employer-sponsored health insurance, and most notably the 2008 expansion of the Medicaid program to include higher income parents and caretaker relatives. It is commonly believed that one way to increase the enrollment of children is to cover their parents, and the increase in Medicaid enrollment of children may have resulted in part from the even larger increase in Medicaid enrollment of parents and caretaker relatives.



Source: Maryland Medical eHealth Statistics, <http://www.chpdm-ehelath.org/eligibility/new/index.cfm>

During the 2010 legislative session, the Kids First Act was amended, repealing the sunset of the law and extended it another three years. The law also will permit the Comptroller's office to provide Maryland Medicaid with income and identity data about taxpayers who opt in to sharing their tax data and claim an exemption for an uninsured child younger than 19. Medicaid may then be able to track Medicaid enrollment for uninsured children identified through the State tax return.

Attachment #1
Letters Sent in Response to 2007 Tax Returns

	Letter # 1	Letter # 2	Total Letters
	Taxpayers under 116% of Federal Poverty Level	Taxpayers under 300% of Federal Poverty Level	
Allegany	2,214	3,577	5,791
Anne Arundel	9,682	20,388	30,070
Baltimore County	19,714	42,237	61,951
Calvert	1,530	3,394	4,924
Caroline	1,245	2,153	3,398
Carroll	2,295	5,761	8,056
Cecil	2,467	4,839	7,306
Charles	3,088	6,521	9,609
Dorchester	1,632	2,235	3,867
Frederick	3,895	9,199	13,094
Garrett	1,011	1,763	2,774
Harford	4,650	10,186	14,836
Howard	3,945	8,315	12,260
Kent	541	903	1,444
Montgomery	18,969	38,418	57,387
Prince George's	26,948	58,982	85,930
Queen Anne's	831	1,804	2,635
St. Mary's	2,376	4,235	6,611
Somerset	1,091	1,307	2,398
Talbot	985	1,641	2,626
Washington	4,220	7,776	11,996
Wicomico	4,030	5,550	9,580
Worcester	1,645	2,316	3,961
Baltimore City	35,705	48,381	84,086
Total	154,709	291,881	446,590

Attachment #2
Letters Sent in Response to 2008 Tax Returns

Status as of 10/30/2009			
	Letter # 1	Letter # 2	
	Taxpayers under 116% of Federal Poverty Level	Taxpayers under 300% of Federal Poverty Level	Total Letters
Allegany	613	660	1,273
Anne Arundel	3,612	5,668	9,280
Baltimore County	7,925	12,375	20,300
Calvert	415	681	1,096
Caroline	374	504	878
Carroll	746	1,130	1,876
Cecil	712	940	1,652
Charles	1,355	2,267	3,622
Dorchester	408	446	854
Frederick	1,396	2,248	3,644
Garrett	255	336	591
Harford	1,453	2,268	3,721
Howard	1,563	2,497	4,060
Kent	170	213	383
Montgomery	9,098	14,745	23,843
Prince George's	13,000	22,282	35,282
Queen Anne's	400	622	1,022
St. Mary's	787	1,014	1,801
Somerset	341	327	668
Talbot	219	326	545
Washington	1,131	1,663	2,794
Wicomico	1,030	1,081	2,111
Worcester	502	501	1,003
Baltimore City	15,061	15,205	30,266
Total	62,566	89,999	152,565