Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

Senate Bill 229 (Senator Roesser, *et al.*)
Budget and Taxation

Holocaust Victims - Inheritance Tax and Income Tax - Insurance Policies

This bill creates an income tax subtraction modification for: (1) income related to recovered Holocaust assets; and (2) reparation/restitution payments made to a "Holocaust victim," or the victim's spouse or descendant. The bill also creates an exemption against the State inheritance tax for the above mentioned assets and distributions. The exclusion from the State income tax and inheritance tax includes interest on the proceeds receivable on specified insurance policies.

The bill requires the Insurance Commissioner to provide a toll-free telephone number to assist Holocaust victims seeking to recover proceeds from an insurance policy as a result of an occurrence arising between January 1, 1929 and December 31, 1945. The bill also requires insurers operating in Maryland to diligently and expeditiously respond to claims and to make exceptions with regard to documentation and time limitations. Under specified circumstances, insurers must file a certified report relating to insurance policies issued to Holocaust victims and any claims filed. The bill requires the Insurance Commissioner to report annually to the Governor and the General Assembly. An insurer is subject to monetary penalties for violating specified provisions of the bill.

The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: Special fund expenditures could increase by $37,500 in FY 2000. Future year expenditures reflect annualization and inflation. Potential minimal decrease in State revenues.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
SF Revenues	-	-	-	-	-
SF Expenditures	$37,500	$46,300	$48,000	$49,800	$51,600
Net Effect	($37,500)	($46,300)	($48,000)	($49,800)	($51,600)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect

Local Effect: Potential minimal decrease in local revenues. No effect on expenditures.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: The tax exemption applies only to the first recipient of the assets after their recovery and only if the recipient is a victim of Nazi persecution, or a Holocaust victim's spouse or descendant. The exclusion does not include assets acquired with the proceeds from the sale of the recovered Holocaust assets.

The Insurance Commissioner must direct an insurer to file a certified report if the Commissioner determines that: (1) the International Commission is not progressing adequately; or (2) an insurer is not meaningfully participating in the work of, or cooperating with, the International Commission.

The Insurance Commissioner is authorized to use any power available to the State to compel holding company systems that include issuers of insurance policies to Holocaust victims to submit reports and to comply with the provisions of the bill. Any insurer that files a false certification is subject to a fine of at least $100,000 and may be barred from selling insurance in the State for up to ten years. In addition, any entity that violates other provisions of this bill is subject to a civil penalty of up to $100,000 for each day of the violation. If the violation is found to be willful, the Insurance Commissioner may impose a fine commensurate with the degree of willfulness and the nature of the violation.

The report required of the Insurance Commissioner is due by December 1, 1999 and annually thereafter. The report must inform on the progress of the International Commission, the status of any report that is required of insurers, and other specified information regarding insurance claims of Holocaust victims.

The inheritance tax exclusion applies to all decedents dying after July 1, 1999. The subtraction modification applies to all taxable years beginning after December 31, 1998.

State Revenues: This bill would provide relief from the State income tax and the inheritance tax for: (1) reparation and restitution payments made to Holocaust victims; (2) distributions from Swiss banks for heirless and unclaimed assets deposited in Swiss banks (dormant accounts); (3) recovered looted assets; (4) interest on the proceeds of insurance policies of Holocaust victims; and (5) other payments relating to Holocaust losses.

According to the Baltimore Jewish Alliance, there are fewer than 1,700 Holocaust survivors in Maryland. There is presently an international class action lawsuit filed on behalf of the survivors for Holocaust losses; the expected payout is estimated to be between $100 - $200 per survivor. To date, about 300 Maryland residents have been identified as claimants. The value and status of the claims cannot be determined at this time.

According to *The Washington Times*, 50,000 needy Holocaust survivors in the United States are to receive $500 from a humanitarian fund. A small number of those recipients would likely be Maryland residents. In addition, two Swiss banks have agreed to pay a total of $1.25 billion to holders of dormant wartime accounts and their heirs. The number of individuals in Maryland who would receive the payments and the amount of the payments cannot be determined at this time.

An International Holocaust Insurance Commission was created by a memorandum of intent signed on April 8, 1998 by the National Association of Insurance Commissioners (NAIC), six major European insurance company groups, and worldwide Jewish organizations. The commission intends to address insurance claims of Holocaust victims and function as a source of relief for these victims. Consequently, some Maryland residents may recover proceeds from insurance policies through the commission. In addition, the bill provides an avenue for survivors or their heirs to file a claim against an insurance company operating in Maryland if the company is affiliated with an insurance group that sold policies to Holocaust victims between January 1, 1929 and December 31, 1945. Although proceeds from insurance policies are not taxable, the interest on the proceeds are taxable. The amount of interests resulting from the proceeds cannot be determined at this time.

Given the uncertainty regarding the status of the claims, the amount of the payments (if any), and the time frame within which payments would be received, it is likely that the impact on State revenues of exempting recovered assets and contributions from the personal income tax and inheritance tax would be minimal. It should be noted, however, that some of the looted assets include artworks of substantial value. The process of recovering such an asset, however, would likely involve considerable delay and the effect on State revenues would not be felt in the near term.

State Expenditures: According to the NAIC, most of the European companies identified as linked to Holocaust claims are major players in the United States insurance market. These

European groups have numerous American subsidiaries operating in Maryland.

The bill requires the Insurance Commissioner to establish a toll-free telephone number for claims against Holocaust victims' insurance policies. The Maryland Insurance Administration (MIA) intends to direct callers to the international commission since it is working directly with the European insurance companies to settle the claims issue. It is expected that at the outset, the MIA may receive a considerable number of inquiries, but the number of calls may decline over time. In addition, MIA must produce an annual report on the number of insurers, policies, and claims relating to insurance policies issued to Holocaust victims.

Consequently, special fund expenditures for MIA could increase by an estimated $37,546 in fiscal 2000, which accounts for the bill's October 1, 1999 effective date. This estimate reflects the cost of hiring one insurance technician to perform the functions required by the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses:

Salaries and Fringe Benefits	$34,381
Operating Expenses	3,165
Total FY 2000 State Expenditures	**$37,546**

Should the need for the position continue over time, future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; (2) annualization; and (3) 1% annual increases in ongoing operating expenses.

Local Revenues: Local piggyback revenues would decline if State income tax revenues decrease. The amount of the decrease is approximately 55% of 5% of any subtraction taken against the personal income tax.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Baltimore Jewish Alliance, Washington Times, Department of Legislative Services

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