HB 1365

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1365 (Delegate Donoghue)
Economic Matters

Property and Casualty Insurers - Premium Tax Credit for Guaranty Corporation Assessments

This bill authorizes an insurer to claim a credit against the premium tax for Property and Casualty Insurance Guaranty Corporation assessments. The bill also repeals the provision that requires insurance premiums charged by member insurers to include an amount sufficient to recoup the amount paid to the corporation by the member insurer less any amount returned to the member by the corporation.

Fiscal Summary

State Effect: Potential significant decrease in general fund revenues to the extent that insurers claim the credit for assessments that exceed 0.5% of their net direct written premiums.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Under the bill, an insurer that is a member of the Property and Casualty Insurance Guaranty Corporation may claim a credit against the premium tax equal to the amount by which the assessment paid for any account exceeds 0.5% of the member insurer's net direct written premiums for the preceding calendar year on the kinds of insurance covered by the account.

The bill authorizes the credit to be allowed against the premium tax ratably over five years, with one-fifth of the credit allowed beginning with the year following the year in which the assessment is paid. The bill also authorizes the credit to be claimed by a member insurer that has ceased doing business in the year it ceases.

The bill limits the credit to the amount of the premium tax otherwise payable for the taxable year. The bill also prohibits the credit from being carried over into the next taxable year. The credit must be recaptured for any amount that is returned by the corporation to the insurer as a refund of the assessment or as an offset against the assessment. The bill provides for the recapture method to be employed. The credit does not apply to any retaliatory tax imposed on insurers from another state or country.

The bill repeals the provision that requires insurance premiums charged by member insurers to include an amount sufficient to recoup the amount paid to the corporation by the member insurer, less any amount returned to the member by the corporation. The bill also repeals the provision that prohibits such a premium from being considered excessive because the rate and premium contain an amount sufficient to recoup assessments.

Current Law: The premium tax rate is 2% of an insurer's gross direct written premiums. Deductions are allowed for: (1) returned premiums other than surrender value; (2) certain dividends; (3) returns or refunds to policyholders because of retrospective ratings or safe driver rewards; and (4) certain premiums received under policies providing health maintenance organization (HMO) benefits. An insurer may claim many of the business tax credits available to other businesses under the corporate income tax, including the credits for One Maryland project costs, the cost of providing commuter benefits, and the Job Creation Tax Credit. No credit applies for assessments from guaranty corporations.

The Property and Casualty Insurance Guaranty Corporation pays claims made against insolvent insurers. The corporation is funded through an assessment on member insurers. The maximum amount that the corporation may assess for an account is 2% of a member insurer's net direct written premiums for the preceding calendar year on the kinds of insurance covered by the account.

An insurer that is a member of the Property and Casualty Insurance Guaranty Corporation must charge a rate and premium for a policy in an amount sufficient to recoup, over a reasonable length of time of at least three years, the amount paid to the corporation by the insurer less any amount returned to the member by the corporation.

Background: The Property and Casualty Insurance Guaranty Corporation maintains four accounts for different types of insurers: (1) title insurers; (2) workers' compensation insurers; (3) automobile insurers; and (4) all other property and casualty insurers.

The Property and Casualty Insurance Guaranty Corporation advises that it has not made an assessment within at least three years but anticipates making an assessment on at least one of its four accounts within the next two years. The corporation further advises that, historically, it has not made assessments of more than 0.5% of net direct written premiums in a given year.

Premium tax revenues to the general fund are approximately $181 million annually.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Legislative Services

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