

Department of Legislative Services  
Maryland General Assembly  
2005 Session

FISCAL AND POLICY NOTE

House Bill 1253  
Ways and Means

(Delegate Cryor, *et al.*)

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**Taking Care of Our Own - Income Tax Credit for Purchase of Life Insurance for  
Active Duty Military**

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This bill creates a tax credit against the State income tax for individuals and corporations who purchase a \$250,000 life insurance policy for an individual who is a resident of the State and is an active member of the U.S. Armed Forces serving in a combat zone. The amount of the credit equals 50% of the purchase price of the policy.

The bill takes effect July 1, 2005 and applies to tax year 2005 and beyond.

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**Fiscal Summary**

**State Effect:** The extent of the general and special fund revenue decrease depends on the number of individuals and corporations that purchase life insurance policies and the cost of these policies and cannot be reliably estimated. Under one set of assumptions, general and special fund revenues could decrease by approximately \$278,000 annually beginning in FY 2006. Special fund expenditures would increase by approximately \$88,800 in FY 2006, which includes one-time tax form changes and computer programming expenditures.

**Local Effect:** Local government revenues would decrease as a result of tax credit claims against the corporate income tax. Based on the assumptions above, if one-quarter of the credits were claimed against the corporate income tax, local revenues would decrease by approximately \$5,000 annually beginning in FY 2006.

**Small Business Effect:** None.

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## Analysis

**Current Law:** No State tax credit of this type exists.

**Background:** A combat zone is any area the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order. In 2004, the following areas were designated as combat zones: Afghanistan area, Kosovo area, and Persian Gulf area.

Servicemen's Group Life Insurance (SGLI) is a program of low-cost group life insurance for service members. It is available in \$10,000 increments up to a maximum of \$250,000. Military members may purchase a SGLI policy available through military pay deduction. Recently introduced federal legislation has proposed to increase the limits and provide that the federal government pay for the cost of life insurance for service members in combat zones. New Mexico recently enacted legislation that requires the state to reimburse Army and National Guard members for life insurance purchased through SGLI. One million dollars was appropriated for the program.

**State Revenues:** The actual cost of the bill depends on the number of additional life insurance policies purchased and the premium charged and cannot be reliably estimated at this time. However, *for illustrative purposes only*, general and special fund revenues could decrease by approximately \$278,000 in fiscal 2006 based on the following facts and assumptions:

- As of September 30, 2004 there were approximately 1.4 million total active duty military personnel.
- Approximately 13% are estimated to be serving in combat zones.
- Maryland's share of active duty military personnel is assumed to be 0.75%.
- It is assumed that all insurance will be purchased through SGLI. The annual premium currently charged for \$250,000 in coverage is \$195.

The bill does not provide for any requirements for taxpayers claiming the credit to provide proof of the qualifying insurance purchases or that the individual for whom the policy was purchased was a Maryland resident. To the extent that purchases are made for individuals who are not Maryland residents or do not qualify but are claimed, revenue losses will be greater.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of approximately \$88,800 to add the tax credit to the personal and corporate income tax form. This includes data processing changes to the SMART income tax return and processing systems, and systems testing.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, U.S. Department of Defense, U.S. Department of Veterans Affairs, Department of Legislative Services

**Fiscal Note History:** First Reader - February 21, 2005  
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