

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 814 (Delegate Cryor, *et al.*)
 Ways and Means

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

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, 2006 and applies to tax year 2006 and beyond.

Fiscal Summary

State Effect: Potential minimal reduction in State revenues in FY 2007 and beyond. General fund expenditures would increase by approximately \$32,900 in FY 2007, which includes one-time tax form changes and computer programming expenditures.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF/SF Rev.	(-)	(-)	(-)	(-)	(-)
GF Expenditure	32,900	0	0	0	0
Net Effect	(\$32,900)	\$0	\$0	\$0	\$0

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

Local Effect: Potential minimal reduction in local highway user revenues distributed from the Transportation Trust Fund (TTF). No effect on expenditures.

Small Business Effect: None.

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. The current combat zones are the Afghanistan area, Kosovo area, and Persian Gulf area.

Servicemembers' Group Life Insurance (SGLI) is a program of low-cost group life insurance for servicemembers on active duty, ready reservists, members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Public Health Service, cadets and midshipmen of the four service academies, and members of the Reserve Officer Training Corps.

Recent federal legislation increased both the death gratuity and insurance available to servicemembers. SGLI coverage is now available in \$50,000 increments up to the maximum \$400,000 (up from \$250,000). The maximum coverage currently costs \$312 annually. The fiscal 2006 appropriation for the Department of Defense provides that, in the case of a servicemember who obtains coverage under the SGLI program and who serves in Operations Enduring Freedom or Iraqi Freedom during a month, the Department of Defense reimburses the amount of the premium equal to the first \$150,000 of the insurance. The Department of Defense is also authorized to increase reimbursements in excess of \$150,000 in coverage. Private insurance companies do not generally insure servicemembers who serve in a combat zone. Recent federal legislation also increased the amount of the death gratuity from \$12,420 to \$100,000 (and an additional amount for individuals who died in combat during specified periods).

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: Tax credits could be claimed beginning in tax year 2006. As a result, State revenues could decrease minimally in fiscal 2007 and beyond. The U.S. Department of Veterans Affairs indicates that 98% of servicemembers take out the maximum coverage of \$400,000 under SGLI. Therefore, individuals or corporations could potentially purchase policies for the remaining 2% of Maryland servicemembers serving in a combat zone. The bill would reimburse individuals and corporations for the purchase of \$250,000 life insurance policies. Based on the policy amount currently paid by the Department of Defense (the first \$150,000 in coverage), State revenues would

decrease by \$39 per \$250,000 policy purchased by individuals and corporations. Any revenue loss associated with the bill would be minimal due to the limited number of policies involved and limited credit amounts.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of approximately \$32,900 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.

Additional Information

Prior Introductions: HB 1253 of 2005, an identical bill, was not reported from the House Ways and Means Committee.

Cross File: None.

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

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ncs/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510