



January 21, 2021

The Honorable Chair Guy Guzzone
Senate Budget & Taxation Committee
3 West
Miller Senate Office Building
Annapolis, MD 21401

RE: Senate Bill 123 – Small Business Fairness Act

Unfavorable

Dear Chair Guzzone:

We are writing on behalf of the American Council of Life Insurers (“ACLI”) and the League of Life and Health Insurers of Maryland (“League”). ACLI and the League’s member companies together provide over 95% of the life, disability, long term care insurance and annuities in Maryland and nationally. We ask for your opposition to unitary/combined reporting, or in the alternative, we ask for an exemption for insurance companies from unitary/combined reporting.

The enactment of unitary/combined reporting will subject insurers to income tax **in addition to** premium taxes, which they currently pay.

Insurers should be excluded because they are currently taxed under a completely different system than non-insurers. Insurers are taxed on gross premiums received rather than net income. **Premium taxes are paid whether the business is profitable or not.** Premium taxes are also paid by both Maryland domestic and foreign (domiciled in a state other than Maryland) insurers. Because of the heavy burden posed by the upfront premium tax, insurers are exempt from corporate income tax.

The benefits to the state of Maryland of the current state insurance company premium tax system are:

1. Stable source of revenue
2. Predictable source of revenue
3. Administrative ease and legal certainty
4. Credit certainty

Life insurers paid approximately \$111,000,000 in premium taxes in 2015. Obviously, health insurers and property casualty insurers paid millions of additional dollars in 2015. If life insurers had paid taxes based upon the regular business tax, they would have paid \$75 million in 2015 or \$36 million less than what was paid through premium taxes.

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Any attempt to combine income tax with a premium tax system presents numerous problems. Probably the most critical of these problems is the impact on the national retaliatory tax system which is unique to the insurance industry. That system exists because the federal McCarran-Ferguson Act, 15 U.S.C. Sec. 1011 et seq. excludes the business of insurance from Commerce Clause applicability. Moreover, insurers have a different accounting system (statutory vs. GAAP) than non-insurers.

The forced combination of insurance companies with affiliated non-insurance companies would, for both the insurance industry and the state raise critical tax policy concerns, add tax burdens and uncertainties, create myriad administrative and substantive issues, and almost certainly lead to litigation.

For these reasons ACLI and the League respectfully request an unfavorable report on the provisions concerning unitary combined reporting or that insurers be expressly excluded from the application of combined/unitary reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Matthew Celentano", with a long horizontal line extending to the right.

Matthew Celentano
American Council of Life Insurers
The League of Life and Health Insurers of Maryland

cc: Members, Senate Budget & Taxation Committee