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THE SENATE OF MARYLAND
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Testimony in Support of SB 890

**Insurance - Premium Receipts Tax - Exemption for Captive Insurance Procured by
Nonprofit Hospitals and Health Care Systems – Favorable**

Madam Chair, Mr. Vice Chair, and Members of the Senate Finance Committee:

Senate Bill 890 was brought to my attention by the Maryland Hospital Association (MHA). The following testimony reflects the position and policy perspective of MHA.

Maryland hospitals manage a wide range of risks to keep critical, life-saving care available to patients every day. Some of these risks are extremely costly or difficult to insure through traditional insurance companies, which means hospitals must often set aside their own funds to prepare for future claims. SB 890 addresses how this longstanding, responsible practice is treated under state law.

Many of the risks hospitals face are difficult or extremely expensive to insure through traditional insurance companies. These include medical professional liability in high acuity areas such as obstetrics, neurosurgery, trauma, and emergency care, as well as cyber risks like ransomware attacks and data breaches. To manage these risks responsibly, hospitals use what is known as a “captive.” A captive is a separate organization the hospital creates to hold its own reserve dollars specifically for future liability claims. It functions much like a dedicated emergency fund. If a claim occurs, the captive pays the cost.

According to MHA, the Maryland Insurance Administration and Maryland hospitals have had conversations about how premium receipts taxes should apply to hospitals’ use of captives.

Under current law, hospitals have not been taxed on the money they place into their own captives because it is their own money, not an insurance purchase. MHA contends that, as originally drafted, the bill could be interpreted to exempt captives entirely, creating the appearance of forgone tax revenue.

According to MHA, their proposed amended structure would create a dependable source of state revenue tied to actual insurance purchases, while allowing hospitals to continue responsibly

setting aside funds to prepare for future claims and maintain high-risk services. I am not taking the position of favorable with amendments and will defer to MHA to articulate their position.

For these reasons, and recognizing the importance of clarity in tax application and hospital financial stability, I respectfully request a favorable report on SB 890.