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Hospitals and Offshore Insurers Must Honor their Tax Responsibilities

Position Statement in Opposition to Senate Bill 890

Given before the House Ways and Means Committee

Maryland families, businesses, and major institutions all rely on public services paid for by taxes. In return, we all pay the taxes we owe. This is the core agreement at the heart of every modern society. Nonprofit hospitals receive significant tax preferences to reflect the public benefits they provide, and as major institutions that employ thousands of workers and receive billions in public funds, they ought to know and honor their legal responsibilities. Thanks to an anonymous whistleblower, we now know that Maryland hospitals and their affiliated offshore for-profit insurance companies have for years failed to pay insurance premium taxes. Senate Bill 890 would extend special treatment to institutional tax cheats and create a tilted study process that could cost the state millions in lost revenues for years to come. **For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 890.**

Sixteen Maryland nonprofit hospitals, which receive significant tax breaks, have established for-profit insurance subsidiaries in the Cayman Islands. Under Maryland law, businesses with captive insurance subsidiaries must pay a 3% premium receipt tax on the gross premiums charged for the insurance. But thanks to a whistleblower, it is now known that at least some of these for-profit insurance companies have failed to pay their taxes for decades.

As introduced, Senate Bill 890 would have retroactively zeroed out nonprofits hospitals' unpaid taxes and exempt them from future taxation. As amended, the bill instead establishes a two-year moratorium on the tax and requires the Maryland Insurance Administration (MIA) to conduct a study on captive insurance in Maryland. While the Senate amendments make the bill somewhat less egregious, it still grants special treatment to lawbreakers and creates a process that could reduce state revenues in the future. Meanwhile, any hospitals and insurers that *have* paid their taxes will receive no benefit.

Nonprofit hospitals are some of the largest organizations operating in the state. They employ thousands of people and receive billions in state funding through Medicaid reimbursements. It is their responsibility to understand and honor their legal obligations. In fact, an industry association in 2018 advised offshore captive insurance companies to understand their state tax obligations.ⁱ Eight years later, they have no excuse for continued failure to pay the taxes they owe.

Even in its amended form, Senate Bill 890 would put Maryland out of step with diverse states' treatment of captive insurer taxes. Florida and Washington aggressively enforce this tax, and lawmakers in Minnesota have rejected a bill similar to Senate Bill 890 as introduced.ⁱⁱ

The Department of Legislative Services estimates that Senate Bill 890 (as amended) would directly reduce general fund revenues by more than \$2 million annually in fiscal years 2027 and 2028.ⁱⁱⁱ If the bill's mandated study leads to elimination reductions, or further delays to the tax, the result will be permanent revenue losses.

These costs are by no means insignificant. To balance the FY 2027 budget, this year's enrolled Budget Reconciliation and Financing Act (Senate Bill 284) includes 16 separate general fund budget cuts of less than \$2 million each, including public health investments such as tobacco use prevention programs.^{iv} Lawmakers judged that each of these reductions was justified in order to chip away at the state's fiscal obstacles. By the same token, lawmakers should consider carefully whether the state can afford to forgo at least \$2 million per year in revenue that is legally owed under current law.

The best choice would be to reject Senate Bill 890 and allow the Comptroller of Maryland to use existing authority to negotiate payment of back taxes, penalties, and interest on a reasonable timeline.

At minimum, lawmakers should address serious weaknesses in the proposed study:

- This bill should require MIA to consult with specific stakeholders, including patent advocates, budget experts, tax administrators, and health care worker representatives.
- The bill should require a transparent process that does not hide relevant data from the public eye.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make an unfavorable report on Senate Bill 890.

ⁱ Protected whistleblower unfavorable testimony on Senate Bill 890, 2026, https://mgaleg.maryland.gov/cmte_testimony/2026/fin/1QSwUd_2-za1v9wsebke6ilefb-8t-OQU.pdf

ⁱⁱ Protected whistleblower testimony

ⁱⁱⁱ Kayvon Samadani, "Fiscal and Policy Note: Senate Bill 890 (Revised)," Department of Legislative Services, 2026, https://mgaleg.maryland.gov/2026RS/fnotes/bil_0000/sbo890.pdf

^{iv} See FY 2027 budget Conference Committee Summary Report, p. 14–15, <https://mgaleg.maryland.gov/Pubs/BudgetFiscal/2026rs-budget-docs-operating-cc-summary.pdf>