TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *May 11, 2023*

LD *1720* – "*An Act to Phase Out the Insurance Premium Tax on Annuities*"

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is John Sagaser, Tax Policy Counsel for the Office of Tax Policy, Maine Revenue Services. I am providing testimony at the request of the Administration Neither For Nor Against LD *1720*, "*An Act to Phase Out the Insurance Premium Tax on Annuities.*"

For tax years beginning on or after January 1, 2024, and over a ten-year period, this bill proposes to phase-out the insurance premiums tax on annuity considerations by reducing the current tax rate of 2% by 0.2 of a percentage point per year, to the extent that the insurer credits the savings from the reduced rates to annuity holders. The tax is fully phased out for tax years beginning on or after January 1, 2033. During the phase-out period, the retaliatory tax, under 36 M.R.S. § 2519, on non-Maine insurance companies does not apply to annuity considerations and deductions related to annuity considerations may be deducted only from annuity considerations.

In lieu of income taxes, Maine imposes a tax on insurance companies at the rate of 2% of taxable premiums, including annuity premiums. In the case of deferred annuities, the consumer makes payments into an investment fund over a period of time (referred to as the "accumulation phase"). Upon annuitization, the consumer begins receiving periodic payments of the amounts contributed and any earnings in the account. The insurer is subject to tax on the amounts contributed in the year the contributions are made. Taxable contributions may be reduced by the amount of contributions refunded to the consumer in the year of the return to the extent the tax was already paid on those contributions. Although the tax is imposed on the insurer, the cost of the tax is generally passed on to consumers in the form of fees. Annuity premiums that are part of a qualified retirement plan are exempt from the tax.

Maine is one of a handful of states that tax annuities in this manner. The bill would bring Maine into alignment with most other states. The Governor's Office, as well as MRS, have received several complaints over the years regarding premium tax fees passed on to consumers in relation to deferred annuities. In addition, bills proposing to end Maine's tax on annuity have been a recurring issue before the Legislature over the past decade, many of which took the approach proposed by this LD 1720. It has been a long-standing issue for taxpayers that use annuities as a source of retirement income.

On a technical note, the benefit of the return premiums deduction could be diminished during the phase-out period. A return of annuity premiums that were subject to tax in a previous year at 2% could be subtracted from annuity premiums now subject to tax at a lower rate in the current year.

The estimated fiscal impact is not currently available.

Estimated administrative costs are $33,000 during fiscal year 2024-2025 for one-time computer programing costs to adjust the premium tax return to reflect updated rates for annuity premiums.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.