

HB

355

# HOUSE COMMITTEE REPORT

(11)

Date Referred: January 26, 1990

FURTHER REFERRALS:

Date of Committee Action: 3/23/90

The FINANCE Committee considered:

HB 355

HOUSE BILL NO. 355

INSURANCE PREMIUM TAXES

"An Act relating to imposition of a uniform insurance premium tax; and providing for an effective date."

**RECOMMENDATIONS:**

- [ ] be replaced with CS HB 355 (L+C) [ ] the same title
- [ ] have attached amendment(s) [✓] a new title
- [✓] do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(s):  
(Dept)

APPROVES PREVIOUS: (Date/Dept)

- [ ] fiscal impact \_\_\_\_\_
- [ ] zero fiscal note \_\_\_\_\_
- [ ] zero with analysis \_\_\_\_\_

- [✓] fiscal note(s) Com. Economic Dev.
- [ ] zero fiscal note(s) \_\_\_\_\_
- [ ] zero fn/analysis \_\_\_\_\_

**SIGNING DO PASS:**

**SIGNING:**  
(Check approp. column)

Do Not  
PASS      No Rec      Amend

Ronald D. Larson Larson  
Carl Swackhammer Swackhammer  
John Ulmer Ulmer  
Demetra Barnes Barnes  
Richard Shultz Shultz  
Mike Koponen Koponen

<u>Paul E. Phillips</u> Phillips	↓		
<u>Wayne Wallis</u> Wallis	✓		

Chairman's Signature  
Ronald D. Larson Larson

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Commerce & Econ. Dev.  
 Title: An Act relating to insurance premium taxes; and providing for an effective date BRU: Insurance  
 Sponsor: Labor & Commerce Committee Components: Operations  
 Requestor: House Labor & Commerce

Adopted

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	159.2	167.1	175.4	184.2	193.4	203.0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary) No fiscal impact in FY90.

Prepared by: Don Koch, Chief of Market Surveillance Phone: 465-2577  
 Division: Insurance Date: 1-19-90  
 Approved by Commissioner: Larry Merculieto Date: 1/19/90  
 Agency: Commerce and Economic Development

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

Offered: 1/26/90  
Referred: Finance

6-1382H

*SM*  
*CEV*

Original sponsor(s): LABOR & COMMERCE COMMITTEE

1 IN THE HOUSE

BY THE LABOR & COMMERCE COMMITTEE

2 CS FOR HOUSE BILL NO. 355 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to insurance premium taxes; and  
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 21.09.210(b) is repealed and reenacted to read:

10 (b) Except for a hospital and medical service corporation, by  
11 April 1 of each calendar year, an authorized insurer, or formerly  
12 authorized insurer with respect to premiums received while an autho-  
13 rized insurer in this state, shall pay to the director a tax on gross  
14 premium income received during the preceding calendar year for insur-  
15 ing property or risks resident, located, or to be performed in the  
16 state at the rate of 2.7 percent. By April 1 of each calendar year, a  
17 hospital and medical service corporation shall pay to the director a  
18 tax on gross premium income received during the preceding calendar  
19 year for health care insurance at the rate of six percent of gross  
20 premium income less claims paid. In computing the tax due under this  
21 subsection, an insurer may deduct from gross premium income applicable  
22 cancellations, returned premiums, the unabsorbed portion of any de-  
23 posit premium, all policy dividends, unabsorbed premiums refunded to  
24 policyholders, refunds, savings, savings coupons, and other similar  
25 returns paid or credited to a policyholder. A deduction from gross  
26 premium income may not be made for the cash surrender value of a  
27 policy. Consideration received for an annuity contract may not be  
28 considered gross premium income and is not subject to tax imposed by  
29 this subsection. The director may adopt regulations that require tax

HB0355B

1 payments be made on other than an annual basis.

2 \* Sec. 2. AS 21.09.210 is amended by adding a new subsection to read:

3 (j) The commissioner of administration shall separately account  
4 for premium taxes collected by the division of insurance that the  
5 division deposits in the general fund. The annual estimated balance  
6 in the account may be appropriated by the legislature to the Alaska  
7 medical malpractice matching fund under AS 21.38.310.

8 \* Sec. 3. AS 21.33.055(a) is repealed and reenacted to read:

9 (a) Except for a premium received for lawfully procured surplus  
10 lines insurance or a premium received for independently procured  
11 insurance on which a tax has been paid under AS 21.33.061, a premium,  
12 membership fee, assessment, or other consideration received for insur-  
13 ance issued by a nonadmitted insurer is subject to the tax imposed on  
14 insurers other than hospital and medical service corporations under  
15 AS 21.09.210(b). Insurance on subjects resident, located, or to be  
16 performed in this state procured through negotiation or application,  
17 in whole or in part occurring in or out of this state, or for which  
18 premiums in whole or in part are remitted directly or indirectly from  
19 in or out of this state, shall be considered to be insurance procured,  
20 continued, or renewed in this state. On default of a nonadmitted  
21 insurer in the payment of the tax, the insured shall pay the tax to  
22 the director as required under AS 21.09.210(b). If the tax imposed  
23 under this subsection is not paid when due the tax shall be increased  
24 by a penalty of 25 percent and by an additional penalty not to exceed  
25 \$100 a day from the date the payment was due to the date paid.

26 \* Sec. 4. AS 21.33.061(c) is repealed and reenacted to read:

27 (c) A premium, membership fee, assessment, or other considera-  
28 tion received for insurance issued by a nonadmitted insurer is subject  
29 to the tax imposed on insurers other than hospital and medical service.

1 corporations under AS 21.09.210(b).

2 \* Sec. 5. AS 21.33.061(e) is amended to read:

3 (e) If the insured fails to withhold from the premium the amount  
4 of tax levied, the insured is liable for the amount and shall pay the  
5 tax to the director as required under AS 21.09.210(b) [WITHIN THE TIME  
6 STATED IN (c) OF THIS SECTION]. If the tax imposed under [PRESCRIBED  
7 BY] this section is not paid when due [WITHIN THE TIME STATED IN (c)  
8 OF THIS SECTION], the tax shall be increased by a penalty of 25 per-  
9 cent and by [THE AMOUNT OF] an additional penalty not to exceed \$100  
10 per day from the date the payment was due to the date paid.

11 \* Sec. 6. AS 21.66.110 is repealed and reenacted to read:

12 Sec. 21.66.110. ANNUAL TAX ON TITLE INSURANCE PREMIUMS. A title  
13 insurance company shall pay the tax imposed on insurers other than  
14 hospital and medical service corporations under AS 21.09.210(b) on  
15 gross premium income received during the calendar year.

16 \* Sec. 7. AS 21.88.060 is repealed and reenacted to read:

17 Sec. 21.88.060. PREMIUM TAX EXEMPTION. Premium income received  
18 by the corporation for insurance issued under this chapter is exempt  
19 from taxation.

20 \* Sec. 8. AS 21.09.210(d) and 21.09.210(h) are repealed.

21 \* Sec. 9. APPLICABILITY. This Act applies to insurance policies that  
22 are issued or renewed on or after the effective date of this section.

23 \* Sec. 10. Section 2 of this Act takes effect on the effective date of  
24 an Act establishing the Alaska medical malpractice matching fund.


25 \* Sec. 11. Except for sec. 2 of this Act, this Act takes effect July 1,  
26 1990.

CSHB 355 (L&C): "An Act relating to imposition of a uniform insurance premium tax; and providing for an effective date.

While this department is neutral on the subject of tax level, we do support this proposed legislation due to its effect on the Division of Insurance. The Act substantially makes the rate of insurance premium tax uniform at 2.7% and provides for a common method of computation. This simplifies the application and calculation of the tax as well as the collection of the tax.

The Division of Insurance now has a number of sources with which to confirm taxes based on gross premium income. It does not have a practical means to determine or confirm taxes based on gross underwriting profit, the method currently used on some wet marine and transportation insurance placements. Except for hospital and medical service corporations, tax would be uniformly applied to gross premium income.

Presently, there are eight different tax rates in the insurance code involving at least three different methods of calculation with resultant variety of the forms utilized to aid in the proper calculation of the appropriate tax. This legislation would allow the Division of Insurance to operate more efficiently in its tax collection role by consolidating the rate and method of taxation.

  
\_\_\_\_\_  
Larry Merculieff, Commissioner  
Date: 24/1/90

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12490a

# HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892



November 23, 1989

## M E M O R A N D U M

To: Members, House Labor and Commerce Committee

From: Representative Dave Donley, Chair  
House Labor and Commerce Committee

Re: HB 355 - Uniform Premium Tax

HB 355 establishes a uniform premium tax of 2.7 percent for insuring property or risks located in Alaska.

The premium tax is one of the largest sources of revenues to the state, generating between twenty and twenty-eight million dollars a year. The complexity of the current statute and the differences between the rates paid by various insurers makes collection and regulation of the premium tax needlessly difficult for the Division of Insurance. HB 355 will make it easier for the Division to collect the premium tax and to regulate the industry.

Property/casualty and life/disability insurers already pay a 2.7 percent premium tax. A uniform premium tax will generate an estimated \$1,728,416.00 additional general fund dollars per year by making the tax rate for hospital and medical service corporations, wet marine and transportation insurance, independently procured insurance and title insurance companies consistent with the rate other insurers pay.

There is a proposed committee substitute in your file that incorporates amendments requested by the Division of Insurance (see attached analysis and fiscal note). Jim Jordan, Acting Director of the Division of Insurance will be present to testify and answer questions at our November 28 hearing.

dd/gbi89  
b/hb355-1

## Insurance Premium Tax Rates by State

State	P&C Tax		Wet Marine Tax		Fire Marshall	Other Fire	Total Tax
AL	4.00	GP	4.00	GP	None	None	4.00 GP
AK	2.70	GP	0.75	Pr	None	None	2.70 GP
AZ	1.70	GP	1.70	GP	0.20 †	None	1.90 GP
AR	2.50	GP	0.75	Pr	None	None	2.50 GP
CA	2.35	GP	5.00	Pr(3)	None	None	2.35 GP
CO	2.25	GP	2.25	GP	None	None	2.25 GP
CT	2.00	GP	5.00	Pr(3)	None	None	2.00 GP
DE	1.75	GP	5.00	Pr(3)	None	None	1.75 GP
DC	2.00	GP	2.00	GP	None	None	2.00 GP
FL	2.00	GP	0.75	Pr	0.63 †	None	2.63 GP
GA	2.25	GP	2.25	GP	None	2.50 †	4.75 GP
HI	4.28	GP	0.88	Pr	None	None	4.28 GP
ID	3.00	GP	3.00	GP	None	None	3.00 GP
IL	2.00	GP	2.00	GP	1.00 †	2.00 †	5.00 GP
IN	2.00	GP	2.00	GP	0.50 incl	None	2.00 GP
IA	2.00	GP	6.50	Pr(3)	None	None	2.00 GP
KS	2.00	GP	2.00	GP	1.25 †	2.00 †	5.25 GP
KY	2.00	GP	2.00	GP	0.75 †	None	2.75 GP
LA	1.85	GP	1.85	GP	1.25 †	2.25 †	5.35 GP
ME	2.00	GP	2.00	GP	0.75 †	None	2.75 GP
MD	2.00	GP	2.00	GP	None	None	2.00 GP
MA	2.28	GP	5.70	Pr(3)	None	None	2.28 GP
MI	2.35	GP	2.35	GP	None	None	2.35 GP
MN	2.00	GP	5.00	Pr(3)	2.00 †	2.00 †	6.00 GP
MS	3.00	GP	3.00	GP	0.50 †	None	3.50 GP
MO	2.00	GP	2.00	GP	None	None	2.00 GP
MT	2.75	GP	2.75	GP	0.75 †	1.25 †	4.75 GP
NE	1.00	GP	1.00	GP	0.75 †	None	1.75 GP
NV	3.00	GP	3.00	GP	None	None	3.00 GP
NH	2.00	GP	5.00	Pr	None	None	2.00 GP
NJ	2.00	GP	5.00	Pr(3)	None	None	2.00 GP
NM	3.00	GP	3.00	GP	None	None	3.00 GP
NY	2.60	GP	2.60	GP	1.25 †	None	3.85 GP
NC	2.50	GP	2.50	GP	1.00 †	0.50 †	4.00 GP
ND	2.50	GP	2.50	GP	None	None	2.50 GP
OH	2.50	GP	2.50	GP	0.75 †	None	3.25 GP
OK	4.00	GP	4.00	GP	0.31 †	None	4.31 GP
OR	2.25	GP	5.00	Pr(3)	1.00 †	None	3.25 GP
PA	2.00	GP	5.00	Pr	None	None	2.00 GP
RI	2.00	GP	5.00	Pr(3)	None	None	2.00 GP
SC	2.00	GP	2.00	GP	None	1.10 †	3.10 GP
SD	2.50	GP	2.50	GP	0.50 †	None	3.00 GP
TN	2.50	GP	2.50	GP	0.75 †	None	3.25 GP
TX	3.50	GP	3.50	GP	1.25 †	None	4.75 GP
UT	2.25	GP	5.00	Pr	None	None	2.25 GP
VT	2.00	GP	2.00	GP	None	None	2.00 GP
VA	2.75	GP	2.75	GP	None	None	2.75 GP
WA	2.00	GP	0.95	Pr	None	None	2.00 GP
WV	4.00	GP	4.00	GP	0.50 †	None	4.50 GP
WI	2.38	GP	0.50	GP	None	2.00 †	4.38 GP
WY	2.50	GP	0.75	Pr	None	None	2.50 GP

	GRASS PREMIUM	CURRENT TAX RATE	CURRENT TAX REVENUE	ADDITIONAL REVENUE ALL AT 2.7% G.P.	ADDITIONAL REVENUE 3% GP LTD PTC	ADDITIONAL REVENUE ALL AT 3% G.P.	ADDITIONAL REVENUE 3.5% GP LTD PTC	ADDITIONAL REVENUE ALL AT 3.5% G.P.
LIFE AND DISABILITY INSURANCE	199,450,000	2.7% G.P.	5,385,154	NO CHANGE	598,350	598,350	1,595,600	1,595,600
LIFE AND DISABILITY STATE + MUNICIPAL	56,760,081	0%	0	NO CHANGE	NO CHANGE	NO CHANGE	NO CHANGE	NO CHANGE
HOSPITAL / MEDICAL SERVICE CORP	60,001,429	6% OF PROFIT	269,629	1,850,400	NO CHANGE	1,530,400	NO CHANGE	1,850,421
PROPERTY / CONSULTY INSURANCE	656,240,740	2.7% G.P.	17,718,544	NO CHANGE	1,968,722	1,968,722	5,249,926	5,249,926
WET MARINE AND TRANSPORTATION	12,485,366	0.75% OF PROFIT	58,146	278,958	NO CHANGE	316,415	NO CHANGE	378,842
TITLE INSURANCE	16,507,725	1% G.P.	165,077	280,700	NO CHANGE	330,154	NO CHANGE	412,693

PREPARED BY:

ALASKA DIVISION OF INSURANCE

4-21-87

23,596,550

1,909,958

2,567,072

4,744,041

6,845,526

9,467,182

Attachment 1  
HB355



*A policy of service and protection*

January 19, 1990

The Honorable Dave Donley  
Chairman, House Labor and  
Commerce Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Mr. Donley:

We have received an Insurance Issues report on a House Labor and Commerce Committee work session held on November 28, 1989, to consider H.B. 355. This is the bill that would impose a uniform insurance premium tax of 2.7 percent.

Quoting from that report:

"Before the work session, Acting Insurance Director Jim Jordan advised Rep. Dave Donley, the committee chairman, that the Division had a neutral position on the bill and offered several technical amendments. A draft substitute was prepared for the work session, incorporating Jordan's suggested changes, but he said he still remained neutral on the legislation because he was concerned about the situation involving Blue Cross of Washington and Alaska. Jordan said that the premium tax is an expense that is passed through directly to the consumer. He suggested that with the high cost of health insurance, the committee might consider exempting medical services corporations. Jordan estimated the increased premium tax in this area would add \$1.5 million to health insurance costs in Alaska. The committee agreed to exempt the medical services corporations and MICA."

We believe that exempting medical services corporations and MICA from the bill raises some equal protection constitutional issues. We agree with Director Jordan "that the premium tax is an expense that is passed through directly to the consumer." We then ask:

Why should a consumer who receives health care insurance from a medical service corporation not have to pay this expense whereas his neighbor who buys his medical insurance from another insurer does?

**RECEIVED**  
JAN 22 1990

The Honorable Dave Donley  
January 19, 1990  
Page 2

Why should a physician (or, ultimately, the patients of that physician) who buys medical malpractice insurance from MICA not have to pay this expense whereas a competing physician (or, his patient) who buys insurance from another insurer does?

Why should policyholders of insurers who provide medical insurance through the workers' compensation, general and auto liability insurance system have to pay this expense whereas the proposed exempted do not?

If the Legislature wants to help out the consumer with premium tax expense, it seems to us that the proper way to do that is to reduce the rate (California's is 2.35%) but charge everyone equally.

There is one other item. We do not have a current draft of H.B. 355. The one we have from last year would continue taxing wet marine insurers on their gross underwriting profit, normally a small percentage of direct premium income. We believe that the tax on marine insurers should be applied to direct premium income to meet the test we advocate above. (We are putting our money where our mouth is on this issue since we are beginning to underwrite marine insurance this year).

Your comments would be appreciated.

Sincerely,



James E. Pfeifer  
President

JEP:lw

cc: Senator Tim Kelly  
Acting Director Jim Jordan