STATE OF OREGON

INTEROFFICE MEMO

TO: Jon Yunker
Wayne J. Wolfe

DATE: November 20, 1980

FROM: Gary Van Horn Gary

SUBJECT: Insurance Tax Options

Data for the options are:

Domestics	Foreign	Totals
@ .25% $1,477,000	@ 2.50% $7,470,000	$ 8,947,000
@ .50% $5,479,000	@ 2.75% $15,441,000	$20,920,000
* @ .75% $9,481,000	@ 3.00% $23,411,000	$32,892,000
@ 1.00% $13,483,000		$13,483,000

Current rates are 2.25 percent for foreign and -0- for domestics.

Any increase in premium tax paid by foreign companies will result in retaliatory taxes being levied or raised for domestic companies doing business in other states; i.e., the costs of doing business will increase for Oregon-based companies to the extent they write insurance in other states. Tax rates in western states are:

Washington	2%	Utah	2.25%
California	2.35%	Wyoming	2.5%
Nevada	2.0%	Idaho	3.0%

Comments from Jane Huston:

- Would advise informing the insurance lobby ahead of formal proposals.
- Suggests we consider other states' practices.

Comments from Frank Howatt:

- Commissioner Fritz is due back on Friday, November 21.
- Domestic lobby may be expected to oppose on grounds that taxing them removes a competitive advantage they have.

- More people (companies) may become self-insured with HMO-type organizations "managing" their risks and this avoids taxes at all in the health field.
- Many states already tax domestic companies at the same level as foreign companies. Other states tax at reduced rates. All told, 32 states tax domestics.

Technical Note:

Estimates presented above assume no growth in premiums and do not consider inflation. They are based on 1979 Insurance Division data carried straight forward.

GVH:eb

Insurance Tax Options 11/18/80

Current Plan:	1981-83
Insurance Division Est. for taxing domestics @ 2.25%: = $10,514,000 per 1%	26,285,000
Add 45% prepayment requirement from special session quarterly payment program - due 6/15/83: (not included with Ins. Div. Est.)	6,150,690
	32,435,690
Add increased annual license fees	330,000
Total 1981-83 Revenue expected:	32,765,690

Optional approach:	1981-83
Tax foreign companies @ 3%:	19,740,000
less $600-800,000 in retaliatory taxes	- 740,000
Add 6/15/83 45% payment	4,441,500
Add annual increased license fees	300,000
	23,741,500

INSURANCE PREMIUM TAX AND RELATED REVENUE OPTIONS

Revenue Item/Description	Option	Additional or New 1981-83 Revenue		Legislation or Changes Required
1. Taxing Oregon domestic insurers	(1) @ 1%	$13,600,000*		Complete Bill
	(2) @ 2.25%	30,586,000*	- 26,285	Complete Bill
	(3) @ 3.0%	40,800,000	48/52 based on current levels + not adj for inflation	Complete Bill
2. Eliminating workers' compensation administration fund assessment credits against premium tax, but maintain current tax rate of 2.25%	(1)	$ 7,800,000		Revise ORS 731.832
Including SAIF @ 2.25%, which requires taxing domestics, see Item #1 above.	(2)	$18-19 million		
3. Increase basic premium tax rate on foreign and alien insurers from 2.25% to : (But still allowing workers' compensation administration fund assessment offset.)	(1) 2.5%	$ 6,754,000**		Revise ORS 731.816
	(2) 2.75%	13,174,000**		
	(3) 3.0%	19,740,000** + 4,441,500 = 24,181,500.		
4. Increase current fee for applications for certificate of authority from $10 to $1,000 (Nationally, fees range $10.00 to $1,500.00 -- California is $1,500.00)		$ 130,000		Revise ORS 731.804
5. Institute a filing fee on rates and form filings.	(1) @ $5.00 ea.	$ 300,000	50/50 - 115 for 2nd year	Revise ORS 731.804
	(2) @ $10.00 ea.	600,000		
6. Increase fee for continuance of certificate of authority from $150. per year to $300 per year. (basic license fee for insurance companies).		OK $ 330,000		Revise ORS 731.804

26,615.

24,511,500

See Narrative

Continued

7. Increase various fees charged by agents licensing section (10 fees)	$ 762,000	Revise ORS 731.804

*Does not include loss of Oregon excise tax. $1,262,432 (1979)
**Need to deduct potential loss of $600-800,000 in retaliatory taxes if rates are adjusted upward.

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COMMENTS ON REVENUE ITEMS

1. Oregon domestic insurers do not currently pay a premium tax. They are subject, however, to an excise tax. For 1979, the Department of Revenue collected $1,300,000 in excise taxes from Oregon domestic insurers. In addition to the excise tax, Oregon domestic property and casualty insurers pay a fire marshal tax.

   Taxing Oregon domestic insurers at a 1% tax rate (vs. 2.25% for foreign and alien companies) would produce approximately $13,600,000 of additional premium tax for the 1981-83 biennium. The $13,600,000 increase in revenue would be partially offset by the loss of $2,600,000 per biennium of domestic insurer excise tax currently paid by such companies.

   In addition, the $13,600,000 assumes that domestic life insurers would pay the tax on all business whether issued before or after the new tax effective date. It should be noted that life insurers have issued life policies at guaranteed rates; a tax on existing life business is not able to be recouped from that business.

   Taxing Oregon domestic insurers at 2.25% (option 2) would net additional revenue of $26,285,000 in 1981-83 under the following assumptions:

   1) Domestic life insurance premium on previously issued policies not taxed.
   2) Currently paid excise tax would be eliminated.

   In 1979, Oregon domestic life insurers wrote $84,500,00 of direct premium. Of the total $44,800,000 was life premium. Of the total life premium, we estimate that $10,100,000 was first year premium. The balance of $34,700,000 would be renewal life business.

   For 1979, the breakdown of domestic insurer written premium was as follows:

Domestic property & casualty premium	$175,000,000
Domestic life and health ins. prem.	84,500,000
*Domestic health care serv. contractors	420,200,000
TOTAL	$679,700,000

*Estimated Oregon portion of total business

Many states tax domestic insurers the same as foreign and aliens. Other states have either reduced rates for domestic insurers or tax credits for investments in domiciliary obligations or for various other items. Our review has determined that 32 states tax domestic insurance companies.

There would be little or no additional expenditure by the Insurance Division in implementing premium taxation of domestic insurers.

It should be noted that, assuming Oregon were to tax domestic insurers, the new premium tax collected would be reduced in the event of an assessment by either of the Oregon Insurance Guaranty Associations. Currently our domestic insurers are subject to such assessment but cannot recoup the assessment against premium taxes as can all of the foreign and alien insurers.

2. Currently workers' compensation insurers pay assessments to the Workers' Compensation Administrative Fund. Current law permits the insurer to deduct the total amount of these assessments paid against the premium tax liability for workers' compensation premium. The elimination of this credit would produce additional premium tax revenue of $7,800,000 for the 1981-83 biennium. This estimated revenue does not include any taxation of SAIF.

   Under option 2 of item 2 the inclusion of SAIF as a domestic insurance company would yield revenue of $18 million to $19 million during the 1981-83 biennium, including the $7,800,000 under option 1 of item 2.

3. Increasing the basic premium tax rate on foreign or alien insurers from 2.25% to the 3 options shown on the attached chart would yield between $6,754,000 and $19,740,000. However, there is a potential loss of between $600,000 to $800,000 in retaliatory taxes currently collected. The higher the Oregon basic tax rate climbs, the more the retaliatory taxes would be decreased. All 3 options of revenue item 3 are based on the assumption that the current Workers' Compensation Administrative Fund assessments would still be allowed as a tax credit.

   Any change in the basic premium tax rate on foreign and alien insurers would not require additional expenditure by the Insurance Division.

4. Insurance companies domiciled in other states are currently charged an application fee of $10 when they file for a Certificate of Authority. The processing of these applications requires a varying amount of analysis time. It is not unusual for the Insurance Division to spend in excess of 5 man-days in analyzing an application.

   The Insurance Division currently receives approximately 65 applications per year, or 130 in a biennium.

   Nationally, application for Certificate of Authority filing fees range from $10 to $1,500. Increasing Oregon's fee to $1,000 would produce $130,000 of additional revenue during the 1981-83 biennium. This additional revenue would approximate the actual costs incurred by the Insurance Division in Personal Services, postage, etc.

5. The Rates and Forms section of the Insurance Division currently does not charge any fee for the filing by an insurer of any proposed policy form or rate schedule. Approximately 30,000 filings are received each year. The imposition of a $5 filing fee (option 1) would yield $300,000 of additional revenue in the 1981-83 biennium. The imposition of a $10 filing fee (option 2) would yield $600,000 of additional revenue during the same period.

6. The Insurance Division currently charges each authorized insurer a $150 annual fee for the continuance of its Certificate of Authority. Nationally, the fee for continuance for Certificate of Authority is somewhat higher on the average. Increasing Oregon's fee to $300 per year would yield an additional $330,000 in revenue in the 1981-83 biennium.

7. The Agent's Licensing section of the Insurance Division currently charges various fees for handling agent/agency matters. Attached to this narrative is a schedule of existing and proposed fees charged by the Agent's Licensing section. The increasing of such fees as shown would yield $762,000 in additional revenue in the 1981-83 biennium.

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Revenue Item/Description	Option	Additional or New 1981-83 Revenue $	Legislation or Changes Required
1. Taxing Oregon domestic insurers	(1) @ 1% (2) @ 2.25% (3) @ 3.0%	$13,600,000* NET. 11.5 30,586,000* NET 26 40,800,000	Complete Bill Complete Bill Complete Bill
2. Eliminating workers' compensation administration fund assessment credits against premium tax, but maintain current tax rate of 2.25%	(1)	$ 7,800,000	Revise ORS 731.832
Including SAIF @ 2.25%, which requires taxing domestics, see Item #1 above.	(2)	$18-19 million	
3. Increase basic premium tax rate on foreign and alien insurers from 2.25% to : (But still allowing workers' compensation administration fund assessment offset.)	(1) 2.5% (2) 2.75% (3) 3.0%	$ 6,754,000** 13,174,000** 19,740,000**	Revise ORS 731.816
4. Increase current fee for applications for certificate of authority from $10 to $1,000 (Nationally, fees range $10.00 to $1,500.00 -- California is $1,500.00)		$ 130,000	Revise ORS 731.804
5. Institute a filing fee on rates and form filings.	(1) @ $5.00 ea. (2) @ $10.00 ea.	$ 300,000 600,000	Revise ORS 731.804
6. Increase fee for continuance of certificate of authority from $150 per year to $300 per year (basic license fee for insurance companies).		$ 330,000	Revise ORS 731.804

Continued

7.	Increase various fees charged by agents licensing section (10 fees)	$ 762,000	Revise ORS 731.804

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