

HOUSE BILL REPORT

HB 2593

As Reported by House Committee On:

Insurance, Financial Services & Consumer Protection

Title: An act relating to reporting insurance premiums for tax purposes.

Brief Description: Reporting insurance premiums for tax purposes.

Sponsors: Representative Kirby; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Insurance, Financial Services & Consumer Protection: 1/15/08 [DP].

Brief Summary of Bill

- Requires that insurance premiums reported for tax purposes must be reported on a basis consistent with the basis required by the annual statement.

HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

Majority Report: Do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Roach, Ranking Minority Member; Hurst, Loomis, Santos, Simpson and Smith.

Staff: Jon Hedegard (786-7127).

Background:

The Office of the Insurance Commissioner (OIC) regulates the business of insurance in Washington. Insurers are required to file financial reports with the OIC to assist in rate and solvency regulation. Each March, insurers file annual statements reporting their financial conditions, transactions, and affairs for the previous year to the OIC. The statement forms are in the general form and context as approved by the National Association of Insurance Commissioners. As part of its annual statement, an insurer must file a statement of premiums that are collected or received on a form prescribed by the OIC. In every statement of premiums, the reporting of premiums for tax purposes must be on a written basis or on a paid-for basis consistent with the basis required by the annual statement.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The OIC also collects taxes on insurance premiums. The premium tax is a receipts tax that is similar to the Business and Occupation tax. This tax is levied against an insurer's premium volume at a rate of 2 percent. Insurers must pay the tax on or before March 1 of each year. All premiums written, procured, or received in Washington are deemed taxable except for those premiums that are properly allocated or apportioned and reported as taxable in another state or states.

"Written premium" is the amount that an insurer charges in return for coverage. Generally, property casualty policies have the term of a year. Rates rarely change within the term of a policy. If a policy term extends over a calendar year into another calendar year but the amount is paid in the first year, it is counted in the first year.

"Paid-for premium" is the amount that an insurer receives in return for coverage. The reporting of this sum is more likely to arise in situations where the contract is a life, health, or disability policy. The contracts may be for an extended period of years or month-to-month. The premium amounts can change over time. If coverage extends over a calendar year into another calendar year, it is possible that part or the entire premium may be earned in the first year.

Summary of Bill:

The reporting of premiums for tax purposes must be consistent with the basis required by the annual statement, whether it is on a written or a paid-for basis.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) The reporting requirement is the current, long-standing practice. The amounts on a tax form need to be consistent with the amounts reported on the annual statement. This is also required in another statute. The bill further clarifies that the current practice and understanding is what is required of companies that are reporting premium information.

Persons Testifying: Mary Clogston, Office of the Insurance Commissioner.

Persons Signed In To Testify But Not Testifying: None.