SENATE BILL REPORT
SB 5168

As of January 23, 2013

Title: An act relating to removal of the insurance premium tax credit under the Washington insurance guaranty association act.

Brief Description: Removing the insurance premium tax credit under the Washington insurance guaranty association act.

Sponsors: Senator Chase.

Brief History:
Committee Activity: Financial Institutions, Housing & Insurance: 1/31/13.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Staff: Edward Redmond (786-7471)

Background: Insurance guaranty associations are organizations created by statute for the purpose of reimbursing policyholders and beneficiaries for losses resulting from the financial impairment or insolvency of insurance companies. Members of these associations are the individual companies authorized to write particular types of insurance within a state. They are governed by a board of directors made up of representatives of the industry, the state regulator, and in some cases, policyholders. The associations are statutorily required to protect policyholders when an insurance company becomes insolvent or a court orders liquidation of the company. There are statutory provisions governing assessments, eligibility for payment, and maximum amount of benefits. Members are assessed following an insolvency in order to keep the fund primed for possible future payments. Assessments in most states, including Washington, are based on the percentage of total premium for the type of insurance written by each member.

In Washington, insurance premiums are exempt from the state's business and occupation tax and are instead subject to a 2 percent insurance premiums tax. The premium taxes collected are disbursed to the state general fund.

There are two guaranty associations in Washington, one to protect property and casualty policyholders, and one for life and disability policies. When an insolvency or liquidation occurs, the member insurance companies of the affected guaranty association are assessed based on their percentage of Washington premiums. The assessment is limited to 2 percent

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of a member company's premiums. A member is exempt from a payment otherwise due, if the payment would render them insolvent.

Members of both associations may offset any payments made to the guaranty fund against premium taxes due over a five-year period. An offset against premium taxes results in reduced premium tax collections to the state's general fund.

Summary of Bill: The insurance premiums tax credits for payments to guaranty associations are repealed. Insurance companies may not claim the tax credit to offset any payments made to the guaranty fund.

Appropriation: None.

Fiscal Note: Requested on January 21, 2013.
[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.