STATE OF CONNECTICUT

FINANCE, REVENUE AND BONDING COMMITTEE

February 9, 2009

Statement of the American Insurance Association

SB 807, AN ACT CONCERNING COMBINED REPORTING FOR PURPOSES OF THE CORPORATION BUSINESS TAX

SB 808, AN ACT INCREASING FEES AND FINES

SB 815, AN ACT CONCERNING A MORTORIUM ON BUSINESS TAX CREDITS

HB 6348, AN ACT CONCERNING CORPORATION BUSINESS TAX CREDITS

HB 6349, AN ACT CONCERNING THE SALES TAX ON SERVICES

HB 6350, AN ACT ELIMINATING EXEMPTIONS FROM THE SALES AND USE TAX AND LOWERING THE RATE OF SUCH TAX

INTRODUCTION

Members of the American Insurance Association (AIA), including some of Connecticut's largest employers, underwrote over $2.6 billion in direct property and casualty (P&C) premiums in this State in 2007. In this same year, P&C insurers employed a total of over 10,800 people in Connecticut and held some $4.5 billion in Connecticut state and municipal bonds (approximately 14% of outstanding state and local government debt). AIA appreciates having this opportunity to comment on the following recently-introduced tax bills:

- ***SB 807, An Act Concerning Combined Reporting for Purposes of the Corporation Business Tax***
- ***SB 808, An Act Increasing Fees and Fines***
- ***SB 815, An Act Concerning a Moratorium on Business Tax Credits***
- ***HB 6348, An Act Concerning Corporation Business Tax Credits***
- ***HB 6349, An Act Concerning the Sales Tax on Services***
- ***HB 6350, An Act Eliminating Exemptions from the Sales and Use Tax and Lowering the Rate of Such Tax***

While more time is needed to thoroughly examine these bills, we are deeply concerned about their adverse impacts on the insurance industry, insurance markets, and Connecticut's economic competitiveness.

DISCUSSION

The tax bills being heard today, applicable to businesses in Connecticut, add new tax and fee burdens and limit tax credits. Taken individually, these bills would impose new and unprecedented burdens on insurers and the insurance marketplace. Taken collectively, these burdens could only be described as breathtaking, particularly as the likely retaliatory tax effects on Connecticut insurers ripple through the nationwide insurance tax system.

These bills stand in marked contrast to the prudent judgments of other states (including financial services centers), as well as the federal government, that the current global economic crisis is the worst possible time – even in the face of record budget deficits -- to dramatically increase business taxes. In the case of the insurance industry, through the operation of retaliatory taxes, Connecticut's addition of these new burdens could perversely leave these other states as the beneficiaries of found tax revenues from Connecticut-based insurers (while Connecticut loses such revenues from insurers based in these states).

Based on our preliminary examination, AIA offers the following specific comments on these bills:

- ***Combined Corporation Business Tax*** (SB 807). AIA strongly opposes this bill, which could result in the indirect taxation of insurer income. Connecticut would be virtually alone among states if it forces the inclusion in combined reports of insurer income which is exempted from direct corporate income tax in favor of the gross taxation of premium. This dangerous and unnecessary precedent would put in jeopardy the national premium and retaliatory tax system, distort and overtax underwriting income, and through retaliation, provide a strong disincentive for insurers to domesticate in Connecticut. It is not without good reason that no other state does this and that a similar measure, adopted in this State in 2003, was repealed before it became effective.

- ***Limiting Tax Credits*** (SB 815, HB 6348). These bills would limit corporate tax credits. To the extent these limitations are applied retroactively (i.e., to current investments), the bills would frustrate legitimate investor expectations and compromise the important public policies served by economic development credits. Moreover, by effectively changing the rules in the middle of the game, Connecticut would provide a powerful disincentive to future corporate reliance on any *quid pro quo* for investment in the State, impairing this State's ability to provide vital economic incentives when they are needed.

- ***Sales Tax*** (HB 6349, HB 6350). These bills use a number of undefined terms, leaving it unclear which insurance services might become subject to sales taxation. What does seem clear, however, is that Connecticut's imposition of sales tax on such services would be unwarranted and unprecedented in scope. Perhaps of greatest concern is the proposed repeal (in HB 6350) of the sales tax exemption for services rendered between parent companies and subsidiaries. For P&C insurers, who are essentially obliged (for regulatory and business reasons) to conduct business through multiple entities, this repeal of a sensible and venerable exemption would have the punitive (and unprecedented) effect of taxing an insurer's internal business operations (e.g., corporate functions such as accounting, legal, human resources, treasury). And to complete this "unwelcome mat" for Connecticut business (particularly insurers), this bill also would impose a 500% hike on the sales tax on computer services.

CONCLUSION

In the interests of protecting the health of Connecticut's insurance industry and market and promoting vital insurance industry jobs and investment in this State, AIA respectfully urges you to reject these singularly ill-timed and ill-conceived tax bills.