

## ***Statement***

### ***Insurance Association of Connecticut***

Finance, Revenue and Bonding Committee

February 9, 2009

SB 807, SB 808, SB 815, HB 6348, HB 6349, HB 6350

The Insurance Association of Connecticut (IAC) opposes SB 807, SB 808, SB 815, HB 6348, HB 6349 and HB 6350. If enacted, these bills would markedly increase the cost of doing the business of insurance in this state, and do severe harm to the state's insurance industry and its ability to compete across the country.

#### **SB 807, An Act Concerning Reporting For Purposes Of The Corporation**

##### **Business Tax.**

IAC opposes SB 807, which would require combined reporting for purposes of the corporation business tax. SB 807 would add unnecessary complexities and administrative costs to the tax system and result in increased levels of litigation due to compliance uncertainties.

In addition, as drafted, SB 807 would apparently subject insurance company income to the corporation business tax. This would be directly contrary to the exemption provisions of C.G.S. 12-214, and would subject Connecticut insurers to potential retaliatory tax liabilities in states across the country where they do business.

Forty-nine states, including Connecticut (C.G.S. 12-211), have retaliatory, or reciprocal, tax statutes. Retaliatory tax is the mechanism through which insurance companies are protected from excessive or discriminatory taxation when doing business in another state. In its simplest form, a retaliatory tax calculation compares the tax

burdens between two states, the state in which the insurer is doing business (host state) and the insurer's state of domicile (home state).

When the state of X determines what taxes the Connecticut insurer must pay it, it compares that state's tax treatment of insurers doing business in X versus what taxes Connecticut requires of X's domestic insurers who do business in Connecticut. If Connecticut taxes are higher, X will assess a retaliatory tax on Connecticut insurers doing business in X to "level the playing field."

Insurance is an export business. Well over ninety percent of Connecticut insurers' sales are to customers outside of Connecticut. Any tax change that increases retaliatory taxes increases the cost of doing business in those other states and harms Connecticut insurers' ability to compete for market share in those states. At the same time, Connecticut's ability to collect retaliatory taxes will be reduced.

#### **SB 808, An Act Increasing Fees and Fines**

The IAC opposes SB 808. We would point out that just last year the General Assembly passed P.A. 08-178, which increased the amounts of fines in title 38a, to which insurers are subject, by up to 2000 per cent. Any additional increase would be neither warranted nor fair.

#### **SB 815, An Act Concerning A Moratorium On Business Tax Credits**

The IAC opposes SB 815, which would prevent the use of specified corporate tax credits for two years. Such a moratorium would be fundamentally unfair. These tax credits had been legitimately earned under the laws of this state, but would retroactively be taken away prior to their usage.

SB 815 would have a direct and adverse impact on companies which had relied on those credits. Tax planning would no longer be possible, as the state's tax policy would no longer be dependable or predictable.

For example, chapter 208 provides for a tax credit for property taxes paid on electronic data processing equipment. This credit was enacted by the General Assembly to encourage the continued investment by businesses in such equipment, and the jobs that go with it, particularly in urban areas of the state where property taxes are higher. The insurance industry, due to the high level of usage of such equipment, would be especially harmed by such a moratorium on that credit.

**HB 6348, An Act Concerning Business Tax Credits**

The IAC opposes HB 6348, which would seek to limit the state's annual exposure to specified corporate tax credits to \$100 million. Again, such a bill would be fundamentally unfair and bad public policy, as it would prevent legitimate and necessary tax planning by businesses, making Connecticut a markedly less attractive place to do business.

HB 6348 would require "preapproval" of tax credits through an application/voucher system. The complexity of such a system and the prohibition of carryforwards would only invite unfair and inconsistent treatment. It would also create clear disincentives for corporations to invest in the state, not only in their own businesses but in contributions to important programs such as low and moderate income housing, computers for schools, and urban reinvestment.

**HB 6349, An Act Concerning The Sales Tax On Services**

The IAC opposes HB 6349, which would subject "professional, insurance, occupational or personal service transactions" to the sales tax.

HB 6349 would clearly increase the cost of doing business in this state, making Connecticut a less attractive place to do business, and would reduce Connecticut insurers' ability to compete across the country.

We also have no idea what is meant by the term "insurance service transaction." Given the lack of definitions, IAC is also concerned about the potential retaliatory tax implications of HB 6349, and the counterproductive financial burden that it would place on Connecticut insurers.

**HB 6350. An Act Eliminating Exemptions From The Sales And Use Tax And Lowering The Rate Of Such Tax**

The IAC opposes HB 6350, which would lower the sales and use tax from six to five percent while eliminating most exemptions from the tax. Once again, such a bill would have a direct and severe impact on the insurance industry by markedly increasing the cost of doing business and putting Connecticut insurers at a competitive disadvantage.

For example, insurers are highly dependent on, and make massive investments in, computers and services relating to them. HB 6350 would increase the tax on sales of computer and data processing services fivefold, to 5%. The adverse impact on the industry of such a change is obvious.

HB 6350 would repeal the exemptions in C.G.S. 12-412. Part of the repeal would be the current exemption for services rendered between parent companies and wholly-owned subsidiaries. Connecticut has long recognized that such internal business activity should not be subject to taxation. Repealing that exemption would be particularly punitive to insurers, because they operate in multiple entities for regulatory reasons.

The insurance industry is an integral part of the economic and social fabric of this state. Connecticut has the highest concentration of insurance jobs of any state, and has the highest percentage of Gross State Product attributable to insurance of any state.

The insurance industry's ability to maintain that presence in the state, and the corresponding benefit to Connecticut's economy and citizens, is dependent in large part on the business environment in which we operate.

As the federal government and states throughout the country, including Connecticut, search for ways to retain and grow jobs in these difficult economic times, the bills before you today would actually move this state in the opposite direction by markedly increasing business costs. This would put Connecticut insurers at a distinct disadvantage in the highly competitive global insurance marketplace and discourage investment in this state. IAC urges rejection of SB 807, SB 808, SB 815, HB 6348, HB 6349 and HB 6350.