Senate

General Assembly **File No. 4**

February Session, 2010 Substitute Senate Bill No. 16

Senate, March 3, 2010

The Committee on Insurance and Real Estate reported through SEN. CRISCO of the 17th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT PHASING OUT THE INSURANCE PREMIUM TAX FOR MUNICIPALITIES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 12-202 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2010, and applicable to income years commencing on or after January 1, 2010*):

(a) Each domestic insurance company shall, annually, pay a tax on the total net direct premiums received by such company during the calendar year next preceding from policies written on property or risks located or resident in this state. The rate of tax on all net direct insurance premiums received on and after January 1, 1995, shall be one and three-quarters per cent. The franchise tax imposed under this section on premium income for the privilege of doing business in the state is in addition to the tax imposed under chapter 208. In the case of any local domestic insurance company the admitted assets of which as of the end of an income year do not exceed ninety-five million dollars, eighty per cent of the tax paid by such company under chapter 208 during such income year reduced by any refunds of taxes paid by such company and granted under said chapter within such income year and eighty per cent of the assessment paid by such company under section 38a-48 during such income year shall be allowed as a credit in the determination of the tax under this chapter payable with respect to total net direct premiums received during such income year, provided that these two credits shall not reduce the tax under this chapter to less than zero, and provided further in the case of a local domestic insurance company which is a member of an insurance holding company system, as defined in section 38a-129, these credits shall apply if the total admitted assets of the local domestic insurance company and its affiliates, as defined in said section, do not exceed two hundred fifty million dollars or, in the alternative, in the case of a local domestic insurance company which is a member of an insurance holding company system, as defined in section 38a-129, these credits shall apply only if total direct written premiums are derived from policies issued or delivered in Connecticut, on risk located in Connecticut and, as of the end of the income year the company and its affiliates have admitted assets minus unpaid losses and loss adjustment expenses that are also discounted for federal and state tax purposes and which for said local domestic insurance company and its affiliates, as defined in said section do not exceed two hundred fifty million dollars.

<u>(b) Notwithstanding the provisions of subsection (a) of this section, the rate of tax on net direct premiums for any contract or policy with a municipality to provide health care coverage to municipal employees, municipal retirees or dependents of such employees or retirees shall be:</u>

<u>(1) For the income years commencing on January 1, 2010, and January 1, 2011, one and three-tenths per cent;</u>

<u>(2) For the income year commencing on January 1, 2012, nine-tenths of one per cent; and</u>

<u>(3) For income years commencing on and after January 1, 2013, zero</u>

<u>per cent.</u>

Sec. 2. Section 12-202a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2010, and applicable to income years commencing on or after January 1, 2010*):

(a) Each health care center, as defined in section 38a-175, that is governed by sections 38a-175 to 38a-192, inclusive, shall pay a tax to the Commissioner of Revenue Services for the calendar year commencing on January 1, 1995, and annually thereafter, at the rate of one and three-quarters per cent of the total net direct subscriber charges received by such health care center during each such calendar year on any new or renewal contract or policy approved by the Insurance Commissioner under section 38a-183. Such payment shall be in addition to any other payment required under section 38a-48.

(b) Notwithstanding the provisions of subsection (a) of this section, the tax shall not apply to:

(1) Any new or renewal contract or policy entered into with the state on or after July 1, 1997, to provide health care coverage to state employees, retirees and their dependents;

(2) Any subscriber charges received from the federal government to provide coverage for Medicare patients;

(3) Any subscriber charges received under a contract or policy entered into with the state to provide health care coverage to Medicaid recipients under the Medicaid managed care program established pursuant to section 17b-28, which charges are attributable to a period on or after January 1, 1998;

(4) Any new or renewal contract or policy entered into with the state on or after April 1, 1998, to provide health care coverage to eligible beneficiaries under the HUSKY Medicaid Plan Part A, HUSKY Part B, or the HUSKY Plus programs, each as defined in section 17b-290;

(5) Any new or renewal contract or policy entered into with the state

on or after April 1, 1998, to provide health care coverage to recipients of state-administered general assistance pursuant to section 17b-192;

(6) Any new or renewal contract or policy entered into with the state on or after February 1, 2000, to provide health care coverage to retired teachers, spouses or surviving spouses covered by plans offered by the state teachers' retirement system;

(7) Any new or renewal contract or policy entered into on or after July 1, 2001, to provide health care coverage to employees of a municipality and their dependents under a plan procured pursuant to section 5-259;

(8) Any new or renewal contract or policy entered into on or after July 1, 2001, to provide health care coverage to employees of nonprofit organizations and their dependents under a plan procured pursuant to section 5-259;

(9) Any new or renewal contract or policy entered into on or after July 1, 2003, to provide health care coverage to individuals eligible for a health coverage tax credit and their dependents under a plan procured pursuant to section 5-259;

(10) Any new or renewal contract or policy entered into on or after July 1, 2005, to provide health care coverage to employees of community action agencies and their dependents under a plan procured pursuant to section 5-259; or

(11) Any new or renewal contract or policy entered into on or after July 1, 2005, to provide health care coverage to retired members and their dependents under a plan procured pursuant to section 5-259.

(c) Notwithstanding the provisions of subsection (a) of this section, the rate of tax on net direct subscriber charges for any contract or policy with a municipality to provide health care coverage to municipal employees, municipal retirees or dependents of such employees or retirees shall be:

(1) For the income years commencing on January 1, 2010, and January 1, 2011, one and three-tenths per cent;

(2) For the income year commencing on January 1, 2012, nine-tenths of one per cent; and

(3) For income years commencing on and after January 1, 2013, zero per cent.

[(c)**]** (d) The provisions of this chapter pertaining to the filing of returns, declarations, installment payments, assessments and collection of taxes, penalties, administrative hearings and appeals imposed on domestic insurance companies shall apply with respect to the charge imposed under this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2010, and applicable to income years commencing on or after January 1, 2010*	12-202
Sec. 2	*July 1, 2010, and applicable to income years commencing on or after January 1, 2010*	12-202a

INS *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 11 $	FY 12 $
Department of Revenue Services	GF - Revenue Loss	3.1 million	2.7 million

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 11 $	FY 12 $
Various Municipalities	Potential Savings	3.1 million	2.7 million

Explanation

This bill phases out the 1.75% premium tax for health insurance plans sold to municipalities. The tax is reduced to 1.3% for income years beginning January 1, 2010 and January 1, 2011, to 0.9% for the income year beginning January 1, 2012, and is eliminated for income years beginning on and after January 1, 2013.

The bill is anticipated to result in a General Fund revenue loss of $3.1 million in FY 11 and $2.7 million in FY 12 from the Insurance Premiums Tax.

Municipalities are anticipated to realize savings to the extent the tax reduction to insurance companies is passed down to municipalities through lower premiums. Municipalities may realize savings of up to $3.1 million in FY 11 and up to $2.7 million in FY 12 as a result of phasing out the Insurance Premiums Tax.

The Out Years

State Impact:

Agency Affected	Fund-Effect	FY 13 $	FY 14 $	FY 15 $
Department of Revenue Services	GF - Revenue Loss	4.8 million	7.5 million	8.7 million

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 13 $	FY 14 $	FY 15 $
Various Municipalities	Potential Savings	4.8 million	7.5 million	8.7 million

Sources: *Public hearing testimony submitted to the Insurance and Real Estate Committee on 2/9/2010 by the CT Conference of Municipalities and Anthem Blue Cross and Blue Shield.*

OLR Bill Analysis
sSB 16

AN ACT PHASING OUT THE INSURANCE PREMIUM TAX FOR MUNICIPALITIES.

SUMMARY:

This bill phases out the 1.75% premium tax paid by domestic insurance companies and health care centers (i.e., HMOs) for health insurance plans sold to municipalities to cover municipal employees, retirees, and their dependents. A domestic company is one formed under Connecticut laws.

The bill reduces the premium tax to 1.3% for income years beginning January 1, 2010 and January 1, 2011 and 0.9% for the income year beginning January 1, 2012. It eliminates the tax for income years beginning on and after January 1, 2013.

Existing law exempts health insurance plans covering municipal employees, retirees, and dependents from the premium tax only if sold by an HMO and through the Municipal Employee Health Insurance Plan (MEHIP).

EFFECTIVE DATE: July 1, 2010 and applicable to income years beginning on or after January 1, 2010.

BACKGROUND

Premium Tax

By law, insurance companies and HMOs pay an annual premium tax of 1.75% per contract or policy sold in Connecticut. There are numerous statutory exemptions from the HMO premium tax, including contracts covering (1) state employees; (2) Medicare and Medicaid recipients; (3) retired teachers; (4) people eligible for a health coverage tax credit covered through MEHIP; and (5) municipal employees and retirees, nonprofit employees, and community action agency employees covered through MEHIP.

MEHIP

The law authorizes the state comptroller to arrange coverage under MEHIP, on a fully insured or risk-pooled (e.g., self-insured) basis, for (1) employees of municipalities, nonprofit corporations, community action agencies, and small employers (businesses with one to 50 employees); (2) people eligible for a health coverage tax credit under federal law; (3) members of an association of personal care assistants; and (4) people eligible for a retirement benefit from the Connecticut municipal employees' retirement system (CGS § 5-259(i)).

“Municipality” includes a town; city; borough; housing authority; regional work force development board; regional emergency telecommunications center; flood commission; regional planning agency; or school, taxing, fire, health, probate, tourism, or transit district.

The comptroller offers fully insured plans for these groups under MEHIP. Effective July 1, 2008, she also sponsors a self-insured plan for municipalities called "Enhanced-MEHIP."

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute
Yea 17 Nay 1 (02/11/2010)