Statement

Insurance Association of Connecticut

Finance, Revenue and Bonding Committee

March 22, 2010

SB 485, An Act Concerning Tax Fairness

IAC opposes SB 485, which would require combined reporting for purposes of the corporation business tax. SB 485 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 485 could be interpreted to subject insurance company income to the corporation business tax. This would be directly contrary to the exemption provisions of C.G.S. 12-214 (insurers pay over $200 million annually to the state in insurance premium taxes), 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.

IAC urges rejection of SB 485.