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Statement
Insurance Association of Connecticut
Insurance & Real Estate Committee

March 10, 2016

HB 5518 AN ACT IMPOSING A SURCHARGE ON CERTAIN PERSONAL RISK INSURANCE POLICIES TO FUND REGIONAL FIRE SCHOOLS' OPERATING BUDGETS AND CERTAIN FIREFIGHTER TRAINING COSTS AND PURCHASES OF FIRE EQUIPMENT

My name is Dallas Dodge, and I serve as Counsel to the Insurance Association of Connecticut ("IAC"). The IAC opposes House Bill 5518, **An Act Imposing a Surcharge on Certain Personal Risk Insurance Policies to Fund Regional Fire Schools' Operating Budgets and Certain Firefighter Training Costs and Purchases of Fire Equipment**.

Based on conversations with the proponents of this bill, the IAC understands that the new "surcharge" created by HB 5518 is intended to be paid not by insurance companies, but by individual policyholders. As the bill is currently drafted, however, the surcharge is structured as a tax that would be paid by insurers on the total net direct premiums they collect for homeowners and renters policies in Connecticut. Due to the retaliatory system of taxation in the United States, HB 5518 would raise taxes throughout the country on Connecticut-based insurers. The IAC respectfully requests that, should the Committee move forward with HB 5518, the bill be amended to address this issue.

Forty-nine states have a retaliatory system of taxation for insurance premiums. Typically, this means that a non-domestic insurer must pay the greater of the actual tax, fee and assessment burden imposed on the insurer in either (1) the state in which the insurance company is writing premium (i.e. the state where the company is filing a return) or (2) the state in which the insurer is domiciled.

Insurers licensed to do business in Connecticut (i.e., authorized insurers) pay a tax of 1.75% of their annual net direct premiums for property or risk insured in Connecticut, excluding cancellations and other returned premiums and dividends paid to policyholders on direct business. For authorized insurers selling homeowners and renters policies, HB 5518 would effectively increase this tax rate from 1.75% to 2.75%, but with roughly one-third of the money collected dedicated to a special purpose fund. Such a tax increase would trigger retaliatory provisions in the insurance and tax codes of other states with lower tax rates, increasing the tax burden for Connecticut-based insurance companies not only in Connecticut but in other states in which they sell insurance.

Should the Committee choose to proceed with HB 5594, the IAC respectfully requests that the bill be amended in such a way that insurers are not directly taxed and the retaliatory provisions in other states are not activated. Insurance – in the form of policies sold in other states – is one of Connecticut's largest service exports, and the insurance industry is responsible for employing tens of thousands of Connecticut residents. Raising taxes nationwide for insurers that have chosen to make Connecticut their home would be counterproductive. As it is currently drafted, HB 5594 will make it more difficult for Connecticut-based insurers to compete in other states, which could harm Connecticut employment.

Thank you for the opportunity to testify.