
**Insurance, Financial Services &
Consumer Protection Committee**

SSB 5919

Brief Description: Providing relief from retaliatory taxes on insurance premium taxes.

Sponsors: Senate Committee on Financial Institutions & Insurance (originally sponsored by Senators Hobbs, Benton, Berkey, Schoesler, Hatfield, Roach and Shin).

Brief Summary of Substitute Bill

- Changes the word "fee" to "regulatory surcharge" when referring to the amount that the Insurance Commissioner charges insurers to pay the operating costs of the Office of the Insurance Commissioner.
- Explicitly states that the regulatory surcharge is not part of a policy's premium.
- Creates a mechanism for recouping the amount of regulatory surcharge paid in previous years from policyholders at a uniform rate separately listed on bills or policy declarations.

Hearing Date: 3/20/07

Staff: Sarah Beznoska (786-7109).

Background:

The premium tax is a gross receipts tax that is similar to the business and occupation tax. This tax is levied against an insurer's premium volume at 2 percent. Additionally, the Office of the Insurance Commissioner (OIC) is authorized to charge a fee of up to 0.125 percent against an insurer's premium volume to finance the OIC's operations. Currently, that fee is at 0.10 percent.

Washington assesses retaliatory taxes on foreign (meaning out-of-state) insurers when the foreign insurer's state of domicile assesses higher aggregate taxes, fees, and assessments on insurance policies written by a Washington-domiciled insurer's than the State of Washington would otherwise assess on foreign insurers writing insurance in Washington. All states, except Hawaii, use this retaliatory tax system.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Generally, in determining whether a retaliatory tax should apply to a foreign insurer, states aggregate all taxes, fees, and assessments charged by the other state. However, states may exclude some fees and assessments from the retaliatory tax calculation. States may be more likely to exclude fees from their retaliatory tax calculations if the fees are assessments for special purposes or are fees that insurers are permitted to recoup from policyholders.

Currently, other states take into account both the 2 percent premium tax and the 0.10 percent assessment charged by the insurance commissioner in calculating whether the retaliatory tax should apply to Washington-domiciled insurers.

Summary of Bill:

The fee that the OIC is authorized to charge insurers to pay the operating costs of the OIC is called the "regulatory surcharge."

Insurers may collect the regulatory surcharge they paid in previous years through a policyholder surcharge on policy premiums. This recoupment must be at a uniform rate reasonably calculated to collect the regulatory surcharge. This amount must be listed separately on bills or policy declarations sent to the insured.

Neither the regulatory surcharge, nor the related policyholder surcharge, is to be considered part of a policy's premium for any purpose, including collection of premium taxes and calculation of an agent's commission.

If an insurer elects not to recover the regulatory surcharge through a policyholder surcharge, the insurer may recoup it through rates so long as the insurer remits the amount of the surcharge he or she elected not to collect and the surcharge was not considered a premium for any purpose.

Appropriation: None.

Fiscal Note: Requested on March 16, 2007.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.