F I S C A L I M P A C T R E P O R T

SPONSOR: Jennings DATE TYPED: 2/1/03 HB

SHORT TITLE: Premium Tax Exemptions SB 331

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	32,000.0		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with SB 165, HB130

SOURCES OF INFORMATION

Responses Received From

PRC
LFC Files

SUMMARY

Synopsis of Bill

Senate Bill 331 eliminates the insurance premium tax exemption for all government contracts except those generated for the benefit of current or retired employees. The amendment is applicable to premiums received in 2003 and subsequent years. Temporary language allows taxpayers to escape penalty and interest for liability generated in the first quarter of 2003 because of this act.

FISCAL IMPLICATIONS

The numbers in the revenue table are gross amounts.

Although it superficially appears to be a selective sales tax, the insurance premium tax is actually structured as an income tax. Estimated annual calendar year liability is paid on the quarter and final settlements are remitted in April. The FY04 cash flows are the sum of 4 quarterly estimated payments (half in 2003 and half in 2004) and a final settlement (payable in April 2004) for liability generated in the first quarter of 2003. The first year impact essentially includes 5 quarters of revenue.

Recent information indicates that the MCO's may not be able to pass the tax on without amendments their existing contracts. The cost of amending the bill to hold them harmless is roughly $2 million a month; if the contracts were amended effective March 2003, the estimate would be reduced by a little more than $4 million.

The estimate assumes that only premiums attributable to Medicaid would generate revenue. Non-health related government premium tax revenue is anticipated to be minimal.

OTHER SUBSTANTIVE ISSUES

Research conducted by experts prior to the legislative session indicated that an amendment such as the one contemplated in this bill would be viewed by the federal government as a special tax. This was the rationale for removing all government exemptions in the LFC proposals; it was believed that a more targeted amendment would most likely provoke a federal reaction. New analysis just received casts doubt on this conclusion. The conclusion of this new analysis is that it is permissible to exclude premiums received from state or local governments for the benefit of active or retired employees.

SS/njw