REPORT OF THE
SELECT COMMITTEE STUDYING

VIRGINIA' GROSS RECEIPTS TAX IMPOSED ON INSURANCE COMPANIES

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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REPORT OF THE SELECT COMMITTEE STUDYING VIRGINIA'S GROSS RECEIPTS TAX IMPOSED ON INSURANCE COMPANIES

To: The Honorable George Allen, Governor of Virginia, and The General Assembly of Virginia

Richmond, Virginia
February 1997

EXECUTIVE SUMMARY

House Joint Resolution No. 202, adopted by the 1996 Session of the General Assembly, established a select committee to study the gross receipts tax imposed on insurance companies. The resolution directs the select committee to ensure that the tax is equitable and is competitive with that of other states.

Virginia imposes a 2.25 percent gross premium tax on life and health, property and casualty, title, and other lines of insurance. In addition, insurers are assessed a 0.06 percent maintenance assessment. Companies writing certain types of insurance are also assessed a fire programs fund assessment, an automobile theft prevention assessment, and a flood prevention and protection fund assessment. Virginia also imposes a variety of regulatory fees. The Commonwealth assesses a retaliatory tax against insurers domiciled in other states if Virginia-domiciled insurers are subject to taxes and fees in those states that are greater than Virginia's taxes and fees. Conversely, Virginia-domiciled insurers must pay retaliatory taxes to other states which impose less in taxes and fees than would be imposed on insurers in those states.

The Commonwealth collected $240.3 million in taxes, fees and assessments on insurers doing business in this state in 1995. Of this sum, almost $210 million was in gross premium taxes paid into the general fund. Almost all of the gross premium taxes were paid by life, health, property and casualty, and title insurers.

Virginia's 2.25 percent gross premium tax rate on life insurance policies is higher than both the average (2.076 percent) and the median (2 percent) rates changed in the 48 states with such a tax. Among the 49 states with a premium tax

on property and casualty insurance, Virginia's 2.25 percent rate is higher than the median (2.1 percent) but lower than the average (2.305 percent). A comparison among states based only on gross premium tax rates is inconclusive because it overlooks many other taxes and fees assessed by states, such as corporate income and franchise taxes, local taxes, and special assessments (such as the fire programs assessment). Such a comparison also overlooks differences in the effective rate of taxation caused by tax credits and variances in the tax base.

The correlation between a state's premium tax rate and its insurance industry employment is not clear. California, with the greatest number of insurance-industry employees, has gross premium tax rates that exceed the national average, while Wyoming, with the lowest tax rates, has the fewest insurance industry employees. However, those states with the largest ratios of insurance employees to their total population tend to have gross premium tax rates that are lower than the national average. Virginia, which ranks twelfth among all states in population, rank 18th in combined property and casualty and life and health insurance employment.

Using hypothetical property and casualty and life and health companies, Virginia's taxes and fees were compared to those in seven other states. Among these states, Virginia's total tax and fee burden appears to be high. As a consequence, the same hypothetical company based in Virginia would pay substantial amounts of retaliatory taxes to other states.

The select committee examined several options for reducing the taxes and fees paid by Virginia insurers, including (i) granting a credit for retaliatory taxes paid to other states, (ii) lowering the gross premium tax rate, (iii) providing a credit for the fire programs fund assessment and other special fund taxes, (iv) providing for reciprocal nonretaliation with other states, and (v) reducing the period over which guaranty fund assessments may be taken as a credit against premium tax liabilities.

The select committee recommended that the General Assembly eliminate the flood prevention and protection fund assessment. Companies licensed to write flood insurance policies are required to pay a one percent assessment on flood insurance premiums, excluding premiums from policies written pursuant to the National Flood Insurance Act, with a $100 minimum assessment. In practice, almost all insurers pay the $100 minimum fee because policies are written under the federal act. In fiscal year 1995, $139,185 was collected from this assessment. The costs of complying with and administering this assessment are believed to exceed the benefit produced. An appropriation of general funds was viewed as a better method to fund this program.

I. INTRODUCTION

The 1996 Session of the General Assembly adopted House Joint Resolution 202, creating a select committee of the House Committee on Finance and the Senate Committee on Finance (Appendix A). The select committee was charged with studying Virginia's gross receipts tax on insurance companies and ensuring that the tax imposed on insurance companies is equitable and is competitive with comparable taxes imposed in other states.

The resolution notes that Virginia possesses an opportunity to attract insurance companies to expand or locate in the Commonwealth if the tax structure is competitive with that of other states. The insurance industry is one of the last sectors of the economy taxed on the basis of a business's gross receipts.

The select committee was chaired by Del. William J. Howell of Stafford County. Sen. Charles J. Colgan of Manassas served as Vice Chairman. The other members of the select committee were Del. Watkins M. Abbitt, Del. Jay W. DeBoer, Del. Jackie T. Stump, Sen. Kevin A. Miller, and Sen. Walter A. Stosch. The select committee was directed to submit its findings and recommendations to the 1997 Session of the General Assembly.

II. BACKGROUND

A. VIRGINIA'S INSURANCE INDUSTRY

The insurance industry is a vital component of the Commonwealth's economy. Virginia is home to 69 insurance companies. Of the Virginia-domiciled insurers, 21 are mutual assessment property and casualty companies, 17 are other property and casualty companies, and 15 are life and health companies. These domestic companies collected over $2.2 billion in premiums and assessments in 1995. In addition, over 1,300 insurance companies domiciled in other states conduct business in Virginia. These foreign companies collected over $13 billion in premiums and assessments in 1995.

According to the Virginia Employment Commission, approximately 28,300 Virginians were employed by insurance carriers in 1995. Insurance carriers accounted for 0.9% of total nonagricultural employment in Virginia in 1995. Another 12,900 Virginians were employed as insurance agents or brokers in 1995.

Federal Bureau of Labor Statistics data for selected types of insurance carriers show that in 1994 Virginia had 1,531 insurance carrier "establishments" employing nearly 28,000 persons (Table 1). The average annual salaries varied by carrier type from almost $27,000 to over $48,000, with most jobs paying approximately $35,000.

Table 1
Employment & Wages at Selected Types of Insurance Carriers Operating in Virginia

Virginia, 1994 Insurance Carrier Type	Number of Establishments	Annual Average Employment	Annual wages per employee
Life	264	6,625	$32,823
Accident & health	32	396	$33,861
Hospital & medical services plans	56	5,207	$34,801
Fire, marine & casualty	771	12,706	$35,781
Surety	25	169	$48,360
Title	337	2,082	$30,294
Pension, health & welfare funds	41	469	$33,433
NEC	5	45	$26,798
Totals	1,531	27,699	

Source: U.S. Department of Labor, Bureau of Labor Statistics, Office of Employment and Unemployment Statistics, Current Employment Statistics Survey; SIC 463 (Insurance Carrier Employment).

In Virginia, insurance carrier employment grew in the decade between 1984 and 1994 from 20,200 to over 28,300, an increase of 41 percent. Virginians employed in the insurance industry account for nearly 2 percent of all employees of insurance carriers nationwide. In comparison, insurance carrier employment nationwide grew in the same decade by 17 percent, from 1.2 million to 1.4 million.

Life insurance and property and casualty insurance companies employed approximately 69 percent of both Virginians and all Americans employed by insurance carriers. The chart at Appendix B ranks the 50 states and the District of Columbia based on the number of persons employed by these two categories of insurance carriers.

Measured against its population ranking, Virginia has comparatively few insurance industry employees. According to the 1990 census, the Commonwealth ranks twelfth in population, but ranks eighteenth in life and property and casualty insurance employment. Virginia ranks well in comparison to North Carolina, which is the tenth most populous state but ranks nineteenth in terms of insurance industry employment.

B. TAXATION OF INSURANCE COMPANIES IN VIRGINIA

1. Gross Premium Tax

Insurance companies operating in Virginia are required to pay a license tax based on their gross premiums, administered by the Bureau of Insurance of the State Corporation Commission. Insurance companies do not pay a Virginia state corporate income tax. An insurer's gross premium tax liability is determined by multiplying taxable premiums, assessments, dues and fees collected (excluding premiums received for reinsurance and earnings on returned or canceled policies) by the applicable tax rate. Annuities, health maintenance organizations (HMO's), fraternal benefit societies, and certain mutual assessment fire insurance companies are exempt from the gross premium tax. Workers' compensation insurers, who are taxed by the Workers' Compensation Commission, are also exempt from the gross premiums tax. (Virginia Code §§ 58.1-2500; 58.1-2502).

The rate of tax on an insurer's gross premiums varies according to the type of insurance written. The gross premium tax rate is 2.25 percent for life, accident and sickness, property and casualty, title, home protection, and prepaid legal insurance. The rate is one percent for cooperative nonprofit life benefit, cooperative or assessment life and casualty, industrial sick benefit insurance, domestic nonprofit mutuals, and certain mutual assessment companies. A domestic mutual health plan insurer that converts to a stock insurer and continues to offer an open enrollment program is taxed at 2.25 percent on premium income from accident and sickness insurance issued to primary small employers (2 to 25 employees) and 0.75 percent on premium income from accident and sickness insurance sold to individuals and large groups. (§§ 58.1-2501; 38.2-4229.1).

Assessments paid to the Life and Health Guaranty Association, Property and Casualty Guaranty Association, and Medical Malpractice Joint Underwriting Association may be offset against a company's premium tax liability at a rate not exceeding 0.05 of one percent of direct gross premium income for classes of insurance in account for which the member was assessed, beginning in the year after a certificate of contribution is issued by the Association. The amount of the credit is reduced by the reduction in federal income tax liability for any deduction claimed for an assessment paid. (§§ 38.2-1709; 38.2-1611; 38.2-2806).

Insurance companies are also eligible for credits against premium tax liability under the the Major Business Facility Job Tax Credit Act and Neighborhood Assistance Act. (§§ 58.1-439; 63.1-324).

2. Other Taxes, Fees and Assessments Based on Gross Premiums

The gross premium tax is not the only tax assessed by the Commonwealth on the basis of an insurer's gross premiums. These additional levies include:

Maintenance Assessment: The SCC's Bureau of Insurance levies an assessment not exceeding 0.1 percent of companies' direct gross premium income. The proceeds are used for expenses of maintaining the Bureau. The 1995 rate was 0.06 percent. (§ 38.2-400).

Fire Programs Fund Assessment: Companies writing fire, miscellaneous property, marine, homeowners and farmowners insurance are assessed at 1 percent of total direct gross premiums, with a $100 minimum. (§ 38.2-401).

HEAT Assessment: Companies writing motor vehicle insurance are assessed at 0.25 percent of direct gross premiums for automobile physical damage insurance other than collision. Money goes to the Help Eliminate Auto Theft (HEAT) Fund, administered by the Department of State Police. (§ 38.2-414).

Flood Prevention and Protection Assistance Fund Assessment: Companies licensed to write flood insurance are assessed 1 percent of direct gross premium income on flood insurance policies, less premiums written pursuant to the National Flood Insurance Act, with a $100 minimum assessment. (§ 38.2-401.1).

Appendix C summarizes the taxes and fees levied on insurance companies operating in the Commonwealth based on gross premiums.

3. Taxes, Fees and Assessments Not Based on Gross Premiums

In addition to taxes levied by the Commonwealth on an insurer's annual gross premiums, insurance companies must pay a variety of other taxes and fees.

Insurers writing property and casualty, life and health, and medical malpractice insurance are required to join guaranty associations, which protect policyholders against the insolvency of companies. If an insolvency occurs, the association assesses member insurers in proportion to their respective market shares in Virginia to obtain funds necessary to pay any outstanding claims of policyholders of insolvent companies.

Property and Casualty Guaranty Association Assessments: The Association may assess members no more than 2 percent net direct written premium for types of insurance in an account with a deficiency. (§ 38.2-1607).

Life and Health Guaranty Association Assessments: The Association may assess members no more than 2 percent of premiums received on business lines covered by account with a deficiency. The Association may also assess members administrative expenses on nonpro-rata basis, not to exceed $200, or on a pro-rata basis and credited against insolvency assessments. (§ 38.2-1705).

Medical Malpractice Joint Underwriting Association Assessments: All member insurers writing medical malpractice liability insurance on a direct basis may be assessed for losses of the joint underwriting association. (§ 38.2-2806).

Other fees assessed against insurers include:

Annual Registration Fee: Stock corporations with 5,000 shares or fewer must pay a registration fee of $50. For stock corporations over 5,000 shares, the fee is $50 plus $15 for each additional 5,000 shares, with a cap of $850. For nonstock companies, the annual registration fee is $25. (§§ 13.1-775.1; 13.1-936.1).

Appointment Fee: A fee is assessed against insurance companies for each appointment of a licensed agent. By statute, the fee must be between $7 and $15; the current rate is $12 per agent. (§ 38.2-1833).

Agents Fees: Agents fees are paid by the individual agent and are not considered for purposes of retaliatory tax liability. The fee for an agent's license is $15 (by statute, it must be between $15 and $30). The examination fee for agents taking a licensure test is set by the Commission at between $20 and $100. The annual license fee for insurance consultants is $50. Reinsurance intermediaries must pay a biennial renewal fee of $500 (by statute, it must be between $500 and $1,000). Managing general agents must pay a biennial renewal fee of $500 (by statute, it must be between $500 and $1,000). Agents are also required to pay fees to make the continuing insurance education program self-supporting. (§§ 38.2-1817; 38.2-1819; 38.2-1840; 38.2-1847; 38.2-1859; 38.2-1873).

Finally, Virginia assesses a retaliatory tax against insurers domiciled in other states if Virginia-domiciled insurers are subject to taxes and fees in another state that are greater than Virginia's taxes and fees imposed on insurers from that state. The amount of the retaliatory tax levied by Virginia is the amount of the difference between the taxes and fees owed to Virginia and the additional taxes and fees that would be imposed by the state of domicile. (§ 38.2-1026). All other states except Hawaii levy a similar retaliatory tax.

A retaliatory tax is not generally considered a revenue-raising measure. In 1995, Virginia collected approximately $2.28 million, or one percent of total revenue in retaliatory taxes from foreign insurers. The tax was paid by nearly 20 percent of the foreign insurers. In comparison, Virginia-domiciled insurers paid $2.8 million in retaliatory taxes to other states in 1995. Most of this amount ($2,295,906) was paid by life and health insurance companies.

The goals of retaliatory taxes are to (i) secure even-handed treatment of insurers by legislatures of all states thereby promoting interstate commerce, (ii) make unfavorable tax discrimination against out-of-state insurers less attractive, and (iii) encourage uniform and moderate levels of taxation nationwide.

The mechanics of retaliatory taxes become apparent in an example. If another state imposes taxes, fees or other assessments on a Virginia insurer that are higher than what a domestic insurer of that state would pay in Virginia, a retaliatory tax will be imposed by Virginia on that state's domestic insurers. For example, if State X levies a three percent premium tax on foreign insurers, while Virginia imposes a 2.25 percent tax on insurers, Virginia will raise its tax rate on insurers domiciled in State X to three percent on premium written in Virginia by companies domiciled in State X.

C. REVENUES FROM INSURANCE TAXES, FEES AND ASSESSMENTS

In fiscal year 1995, the Bureau of Insurance collected $240.3 million in taxes and fees on insurance companies doing business in Virginia. This sum is almost 10 percent greater than the $219.7 million collected in fiscal year 1994.

Of this amount collected, $209.8 million is from the gross premium tax on insurance companies. This money, together with $298,390 in various license fees, interest and penalties, was paid into the general fund. The gross premium tax is the Commonwealth's fifth largest source of general fund revenue. It is exceeded only by the personal income tax, sales and use tax, corporate income tax, and lottery proceeds.

The balance of the funds collected from insurance companies, $30.2 million, is paid into special funds. The largest special fund taxes are the fire programs fund fee ($9 million), the maintenance assessment ($8 million), fines imposed by the SCC ($6.1 million), and agents appointment fees ($5.7 million).

Appendix D lists the taxes and fees collected by the Bureau of Insurance for fiscal years 1993, 1994 and 1995.

Almost 97 percent of gross premium taxes are paid by property and casualty and life and health insurers. Table 2 shows the estimated 1995 revenue based on the type of company.

Table 2
Gross Premium Tax Revenue By Type of Insurance Company

Company Type	1995 Taxable Premiums	Tax Rate	Estimated Revenue
Mutual Assessments Life	$552,710	0.01	$5,527
Burial Society	851,679	0.01	8,517
Cooperative Nonprofit Life	46,434	0.01	464
Dental/Optom. Plans	29,862,021	0.0075	223,965
Fraternal Benefit Society	37,620,172	0	0
HMO	936,239,027	0	0
Home Protection Cos.	8,081,187	0.0225	181,827
Health Services Plans	41,751,887	0.0075	313,139
Joint Underwriting Assocs.	0	0.0225	0
Life & Health	4,896,915,493	0.0225	110,180,599
Legal Services Plans	1,314,068	0.0225	29,567
Mutual Assessment P&C	52,624,838	0.0225	526,248
Property & Casualty	4,769,628,935	0.0225	107,316,651
Risk Retention Group	42,226,003	0.0225	950,085
Surplus Lines	125,972,405	0.0225	2,834,379
Title Insurance	86,308,119	0.0225	1,941,933
Gross Est. Revenue	11,029,994,978		$224,512,901
Guaranty Fund Credits	5,828,490		($5,828,490)
Open Enrollment Break	808,969,965	-0.015	($12,134,549)
Net Estimated Revenue			**$206,549,861**

Source: SCC Bureau of Insurance, unpublished data; revenue estimates based on calendar year 1995 taxable premiums.

D. HISTORY OF INSURANCE INDUSTRY TAXATION

Virginia began taxing insurance companies in 1842 when it levied a $100 annual tax on each insurance office. In 1856, a 0.5 percent tax was imposed on the gross premiums of insurance companies chartered outside of the Commonwealth. In 1873, a uniform 1.5 percent tax was imposed on the gross premiums of foreign and domestic insurers, which were also required to pay a $200 annual license fee and local license and property taxes. One year later, Virginia reduced the gross premium tax rate to one percent and adopted a retaliatory tax.

Pursuant to the 1914 Report of the Joint Commission on Tax Revision, the General Assembly in 1915 established separate gross premium tax rates for sick benefit companies (1 percent), life insurance companies (2.25 percent), and fire and marine, surety, health and accident, and other companies (2.75 percent). Insurers were exempted from all other state and local taxes except assessment fees; charter, franchise and registration charges; and local property taxes.

Except for imposing a 0.8 percent fire programs tax in 1985, the taxing of insurance companies remained unchanged for 72 years. Following a two-year study by the Secretary of Finance, the 1987 Session of the General Assembly passed House Bill 1396 and Senate Bill 598. These measures reduced the 2.75 percent gross premium tax on fire and marine, surety, health and accident, and other lines to 2.25 percent. These bills also imposed a 0.75 percent tax on gross subscriber fee income for health services plans offering open enrollment, and allowed property and casualty insurers to take a credit for a portion of their guaranty association payments.

Since 1987, the General Assembly has levied additional fees on lines of insurance to fund specific programs. In 1990, the flood prevention and protection assessment was imposed; in 1991, the motor vehicle theft assessment was imposed; and in 1995, the fire programs fund assessment was increased from 0.8 percent to one percent. In 1994, the General Assembly increased the rate of the gross premium tax or small group policies issued by open enrollment carriers from 0.75 percent to 2.25 percent.

The reports of the Secretary of Finance on the taxation of insurance companies in Virginia provided a valuable backdrop for the work of the select committee. In its first year of work pursuant to House Joint Resolution 311 (1985), the Secretary of Finance found that (i) Virginia's tax structure, with three different rates and numerous fees and special assessments, was more complex than that of most other states; (ii) Virginia's tax rates were higher than most states, particularly for property and casualty companies (2.75% plus 0.8% fire programs tax), contributing to the relatively small domestic insurance industry in Virginia; and (iii) Virginia's comparatively high tax rate resulted in greater retaliatory taxes paid by Virginia companies to other states where they do business. (House Document No. 22 (1986))

In its second year, the Secretary of Finance issued the following recommendations in House Document 19 (1987):

- The current premium tax rate imposed on property and casualty and accident and sickness insurers should be reduced to be more in line with the tax rates applied to life insurance.

- The current tax exemption provided for prepaid health and Blue Cross/Blue Shield plans should be repealed. Consideration should be given to taxing these companies (i) at a lower rate than that imposed on commercial accident and sickness insurance so long as the plans maintain an open enrollment program with the current features; (ii) at the same rate as commercial accident and sickness insurers but with an exemption for a certain percentage or for certain types of subscriber income; or (iii) at the same rate as other insurers but providing tax credits or lower rates for that portion of benefits derived from an open enrollment program.

- The tax status of HMOs should not be altered at this time, but their growth and internal operations should be monitored to determine if changes are warranted in the future.

- Members of guaranty associations should be allowed to deduct assessments from premium taxes, limited to a specific percentage of premium income.

- Fraternal benefit societies should be assessed for the cost of regulation.

- "The General Assembly should monitor the evolving changes within the insurance industry at frequent intervals to ensure tax equity among competing forms of insurance and to assess the revenue impact associated with these changes."

The 1986 report also analyzed the relative tax burdens among different types of Virginia insurers. In the analysis, the Secretary of Finance compiled comparable statements of operating income for the different lines of insurance, including premiums earned and other considerations, net investment gain, and miscellaneous and other income. The operating income was then compared to the various taxes, fees, and other assessments levied against the companies. The report noted that domestic life insurance companies had relative tax burdens that are significantly less than those of domestic property and casualty companies. Four reasons were given for this difference: (i) the property and casualty tax rate was 0.5 percent higher than the rate for life companies (2.75 percent vs. 2.25 percent); (ii) life companies derive 11 percent of their income from annuity contracts which are exempt from taxation; (iii) domestic life insurers write a substantial portion of their policies in other states, which premiums are taxed in the state where they are earned; and (iv) property and casualty companies pay additional types of fees (i.e., the fire programs fee) not collected from life companies.

The 1986 report summarized a variety of approaches that could address inequities in the tax system and identified their corresponding advantages, disadvantages, and revenue impacts. For example, the option of replacing the premium tax with a six percent corporate income tax was estimated to cost the state $86 million in annual revenue. Advantages of such a change would include (i) taxing income of insurers in the same manner as income for other companies, (ii) linking taxes to profitability, (iii) lowering the tax burden on most insurers, and (iv) reducing retaliatory taxes. Disadvantages include (i) requiring involvement of both the SCC and the Department of Taxation, (ii) increasing reporting requirements, (iii) separating taxing from regulatory control, and (iv) subjecting revenues to cyclical swings in the insurance industry.

The history of insurance company taxation explains the unique status of the retaliatory tax. In 1869, the Supreme Court ruled in Paul v. Virginia, 8 Wall. 168, 19 L.Ed. 357, that insurance was not "commerce" within the meaning of the Commerce Clause. The Supreme Court reversed this decision in U.S. v. South-Eastern Underwriters Association, 322 U.S. 533 (1944). In response, Congress passed the McCarran-Ferguson Act, 15 U.S.C. § 1012 (a), which provides that "the business of insurance . . . shall be subject to the laws of the several States which relate to the regulation or taxation of such business."

The Supreme Court affirmed the power of states to levy retaliatory taxes against foreign insurance companies in Western & Southern Life v. State Board of Equalization, 451 U.S. 648 (1981). The Court held that a retaliatory tax does not violate the Commerce Clause (because the McCarran-Ferguson Act removes entirely any Commerce Clause restrictions on a state's power to tax the insurance business) and does not violate the Equal Protection Clause (because the purpose of promoting the interstate business of domestic insurers by deterring other states from imposing discriminatory or excessive taxes is legitimate and the legislature rationally could have believed that the retaliatory tax will accomplish this purpose). At Footnote 22 the Court held that "Although the retaliatory tax is an imposition on interstate insurance companies, it is supported by the industry as a means of fostering uniform and moderate levels of taxation nationwide."

In Metropolitan Life Insurance Co. v. Ward, 470 U.S. 869 (1985), in a 5-4 ruling, the Court held that an Alabama law imposing a substantially lower gross premiums tax rate on domestic insurance companies than on out-of-state insurance companies violates the equal protection clause. The Court held that a state cannot erect barriers to foreign companies who wish to do interstate business in order to improve its domestic insurers' ability to compete at home. Discriminatory rates were distinguished from the retaliatory tax, which attempts to influence the policies of other states in order to enhance its domestic companies' ability to operate interstate. Alabama's law also allowed foreign companies to reduce, but not eliminate, the rate differential by investing in Alabama assets and securities; this was held not to be a legitimate state purpose.

E. TAXATION OF INSURANCE COMPANIES BY OTHER STATES

All but two states levy a gross premiums tax on domestic life insurance companies, and all but three levy such tax on domestic property and casualty companies. Rates range from 4.625 percent in Hawaii to 0.75 percent in Wyoming.

Of the 48 states levying a gross premium tax rate on their domestic life insurance companies, 11 assess at a rate of less than 2 percent; 17 assess at 2 percent; 9 (including Virginia) at a rate between 2 and 2.5 percent; and 11 at 2.5 percent or greater. The average rate among the 48 states is 2.076 percent, and the median is 2 percent.

The corresponding distribution for the 49 states taxing the gross premiums of domestic property and casualty companies is similar. Eight states tax their gross premiums at a rate less than 2 percent; 16 at 2 percent; 9 (including Virginia) at a rate between 2 and 2.5 percent; and 16 at 2.5 percent or greater. The average rate among the 49 states is 2.305 percent, and the median is 2.1 percent.

Appendix E lists the gross premium tax rates levied by all states and the District of Columbia on life insurance and property and casualty insurance premiums.

The rates of the gross premium tax levied by states on domestic insurers are not a reliable indicator of their total tax burden. The total tax and fee burden, which is typically the measure used in determining retaliatory tax liability, encompasses a variety of other types of assessments. The table of gross premium tax rates does not reflect premium surcharges levied against specific types of insurers. For example, 27 states (including Virginia) levy an additional fire programs tax based on gross premiums from fire insurance policies.

The net tax obligation of insurers is also affected by various credits, such as credits for local ad valorem taxes paid to localities (i.e., Missouri), for regulatory assessments and license fees (i.e., Michigan), and for retaliatory taxes paid to other states (i.e., Georgia).

Twenty-two states levy some form of corporate income, privilege, or franchise tax on insurance companies. Several of the states with an income or franchise tax levy it only on domestic insurers. Approximately one-half of the states with an income or franchise tax provide a full or partial credit for these taxes against premium tax liability or for premium tax paid against income or franchise tax liability.

Further complicating comparisons of state taxation of insurers is the practice of several states to levy different gross premium tax rates on domestic and foreign companies. Alabama's practice of imposing a substantially lower gross premium tax rate on domestic insurance companies than on out-of-state insurance companies was held in Metropolitan Life v. Ward to violate the Equal Protection Clause. In response, Alabama has adopted legislation phasing in increases in the 1% domestic rate and decreases in the 3 percent foreign life rate and 4 percent foreign rate for other insurers, with the result that all life rates will be 2.3 percent, and rates for other types of insurance will be 1.6 percent, in 1999 and thereafter. Tennessee is also in the process of phasing in reductions in the rate paid by foreign life companies. By 2000, foreign and domestic companies in Tennessee will pay the same 1.75 percent of gross premiums on life policies.

Appendix F illustrates the types of taxes, other than the gross premium tax, imposed on insurance companies in other states.

Further complicating interstate comparisons of state taxes on insurance companies is the taxation of insurance-related business that is exempt from Virginia's gross premium tax. For example, health maintenance organizations (HMOs), which pay corporate income tax in Virginia, are taxed on their gross premiums by 16 states. Four of these states apply the tax only to for-profit HMOs. In addition, 10 states and the District of Columbia impose a gross premium tax on annuity considerations, which are exempt from taxation in Virginia.

A dozen states offer incentives to insurance companies that locate home or regional offices in their state by reducing their gross premium tax liability. Virginia's major business facility tax credit, which offers a tax credit of $1,000 for each qualified full-time employee over 100 new employees of a certified company establishing a major business facility, is an example of such an incentive program.

Other states with insurance home office incentive programs include (i) Alabama and Oklahoma (tax credit percentage based on number of employees hired); (ii) Florida (tax credit based on cumulative salaries paid to employees); (iii) Hawaii (tax credit for locating an office, to facilitate regulatory oversight); and (iv) Louisiana ($1,000 per employee tax credit). Appendix F also lists states offering gross premium tax credits to companies establishing operations in their states.

F. FACTORS IN LOCATING INSURANCE COMPANY OPERATIONS

Insurance companies have shown a willingness to dramatically change the situs of their operations to gain economic advantages. According to a November 1994 story in Best's Review, "[t]he primary drivers for strategic location decisions in the insurance industry include decentralization, consolidation and squeezed profits." (Charles H. Galloway and Kenneth G. Kuhl, "America's Best Insurance Cities," Best's Review (vol. 95, n. 7), pp. 56-67) Reduced cost, access to good labor, and improved quality of life for employees have also been credited for relocation decisions. Examples from 1994 include Royal Insurance Group's relocation of its 1,300-employee headquarters from New York to Charlotte, and Transamerica Life's transfer of its reinsurance division from Los Angeles to Charlotte.

In November 1994, A.M. Best & Co. released the results of a survey of 400 insurance companies, agents and brokers and 25 economic development agencies. The results of the survey, performed by the management consultant firm of Moral, Stahl & Boyer, rank cities on their attractiveness for overall location, back office operations (including processing claims, managing accounts, and other support services), headquarters, and agency and brokerage operations. The cities ranked highest for headquarters locations were Chicago, Minneapolis, New York, Boston,

Atlanta, and Des Moines. The results, listed at Table 3, indicate an increasing movement of insurance companies from larger northern and eastern cities to the Midwest.

Table 3
Ranking of Cities for Insurance Office Attractiveness

Rank	Overall	Back-Office Operations	Agency & Brokerage Operations
1	Des Moines	Des Moines	Tampa
2	Tampa	Tampa	Atlanta
3	Minneapolis	Milwaukee	Columbus
4	Milwaukee	Kansas City	Minneapolis
5	Kansas City	Baltimore	Indianapolis
6	Chicago	Minneapolis	Dallas
7	Baltimore	St. Louis	Houston
8	Atlanta	Atlanta	Seattle
9	St. Louis	Columbus	Kansas City
10	Seattle	Seattle	Milwaukee

Source: A.M. Best & Co. (1994)

According to the survey, the overriding concern in selecting an insurance location, cited by 61 percent of respondents, is the quality of the labor force. Because insurance companies are labor-intensive operations and require an educated workforce, access to talent is clearly the most critical factor in making a relocation decision. High marks went to places with what insurance executives feel are good educational systems in which workers learn skills needed in the insurance industry, favorable salary and cost structures, favorable regulatory environments, and attractive living environments. The last category includes the cost of living, culture, quality of public schools, accessibility by air, and the presence of sports teams.

While few other industries are as closely monitored and regulated as insurance, a state's regulatory climate did not figure prominently in most CEO's headquarters location criteria. The regulatory climate includes a state's control of rates and operations, as well as the tax structure. Labor force, proximity to markets, quality of life, and costs were rated as significantly more important in selecting a headquarters location. Regulatory climate was a major factor, however, in selecting a state of domicile and states in which to market their products.

The five states judged to have the best regulatory climate were Illinois, Iowa, Ohio, New York, and Wisconsin. The five states judged as having the worst regulatory environments were California, Texas, New York, Florida, and New Jersey. New York's appearance on both lists was attributed to high marks from survey respondents who had been in New York for a long time, while newcomers were more skeptical.

Respondents distinguished between back-office relocations and headquarters relocations. Back-office relocation is essentially labor-driven, and a company can realize significant reductions in the cost of labor by moving to a lower wage environment. The decision to move a corporate headquarters, however, is expensive and executive salaries are less elastic and exhibit more uniformity from place to place. Consequently, decisions to relocate headquarters are generally strategically driven by factors such as expanding into new markets and improving a company's ability to recruit executive talent.

A comparison of Hartford and Des Moines illustrates trends in insurance company relocations. Connecticut's insurance employment, excluding agents and brokers, declined 15 percent between 1990 and 1995. Hartford lost 1,500 jobs in the sale of Aetna's property and casualty business to New-York based Travelers Group. Reasons attributed to Hartford's decline as an insurance employment center include a school system in turmoil and deep economic disparities between the city and its suburbs. A major competitor of Connecticut has been Iowa, which has been aggressively selling itself as an attractive home for insurance companies. (Lisa Marie Pane, "Hartford: Still Insurance Capitol of the World or a Has-Been?" Associated Press; November 29, 1995).

Des Moines has become a global insurance mecca, home to 200 insurance companies and 21,000 insurance industry employees. Des Moines' attractiveness to insurers has been attributed to highly targeted programs designed to attract and support the insurance industry: labor quality, low operating costs, educational institutions, and a favorable regulatory environment. Other features attracting insurers to Iowa include (i) a port-of-entry law that allows international insurers ease of entry into the Iowa (and U.S.) markets; (ii) a corporate shell law that streamlines licensing procedures by allowing companies to reactivate licenses of defunct insurers; (iii) the New Jobs Income Program, which authorizes localities to exempt companies from property taxes for up to 20 years; and (iv) the New Jobs Training Program, under which the state pays for a large part of the training costs of insurers relocating to Iowa. Another factor in attracting insurance companies has been Iowa's elimination of personal property and sales taxes on computer equipment for financial institutions, factories, and insurance companies. ("The Midwest's New Role in the Global Economy," Business Week, July 11, 1994).

The attractiveness of a city to insurance companies is also aided by a "critical mass" of insurance industry presence. In Des Moines and in Hartford, more than 10 percent of the workforce is employed in the insurance industry. The large number of insurance entities headquartered and operating in the Des Moines area has produced a substantial and well-trained workforce focused on the insurance industry. Though insurance operations are widely dispersed around the country, there is a considerable degree of industry concentration. The top 25 cities account for 49 percent of total insurance industry employment nationwide. (Galloway and Kuhl, supra.).

Connecticut's declining position, and Iowa's improving position, as home to insurance companies, are not explained by their gross premiums tax rates: Connecticut's rate is 1.75 percent and Iowa's rate is 2 percent. However, the overall tax burden may be a factor. Iowa does not levy an income or franchise tax on insurers, while Connecticut requires companies to pay both a tax on insurance premiums and a tax on corporate income.

A state's gross premium tax rate may be related to its insurance carrier employment. Of the 10 states with the largest numbers of life and property and casualty insurance employees, seven had gross premium tax rates below the average rates. Of the 10 states with the fewest such employees, seven had gross premium tax rates that exceeded the average rates. The evidence of a correlation between gross premium tax rates and insurance industry employment levels is not conclusive. For example, the state with the most insurance company employees, California, has gross premium tax rates that exceed the averages for both life and property and casualty insurance. The state with by far the lowest gross premium tax rates (Wyoming) also has the fewest insurance industry employees.

Appendix G lists all states and the District of Columbia in order of employment by life and property and casualty insurers, with their population and gross premium tax rates. A state's population is related to its insurance industry employment levels. Of the 10 states with the most insurance industry employees, eight are among the top 10 in population. Of the 10 states with the fewest insurance industry employees, seven are among the 10 least populous.

However, the insurance employment levels of several states indicate that the gross premium tax rate may be a factor in its concentration of insurance industry employment. Connecticut, with comparatively low gross premium tax rates of 1.75 percent, ranks sixth in insurance employment but 27th in population. Other states with a difference of 10 units or more between their rankings for population and insurance industry employment include Iowa (30th in population, 16th in employment, gross premium tax rates of 2 percent); New Hampshire (41st in population, 30th in employment, gross premium tax rates of 2 percent); the District of Columbia (50th in population, 37th in employment, gross premium tax rates of 2.25 percent; and Nevada (38th in population, 48th in employment, gross premium tax rates of 3.5 percent). Three of these jurisdictions with an employment rank 10 or more units higher than their population rank have gross premium tax rates below the national average. The only state with an employment rank 10 or more units lower than its population rank (Nevada) has gross premium tax rates above the national average.

Employment levels between life insurance and property and casualty insurers are subject to variation within states. For example, Connecticut ranks first in life insurance employment but 18th in property and casualty insurance employment. Iowa ranks 11th in life insurance employment but 25th in property and casualty

insurance employment. California, with the most property and casualty insurance employees and total employees, ranks fourth in life insurance company employees. Generally, there is a correlation between employment levels among these two kinds of insurance companies, as the 20 states with the most property and casualty employees are 19 of the states with the most life insurance company employees.

III. ISSUES

A. THE COMPARATIVE BURDEN OF VIRGINIA'S INSURANCE TAXSTRUCTURE

House Joint Resolution 202 directed the select committee to ensure that Virginia's system of taxing insurance companies is competitive with that of other states As previously noted, Virginia's gross premium tax rate on life and health and property and casualty insurance is 2.25 percent. This rate is higher than the average and median rates levied on life insurers by all states, and higher than the median but lower than the average rates levied on property and casualty insurers by all states.

However, a comparison focusing only on gross premium tax rates does not provide an accurate comparison among states. In order to incorporate the various additional taxes and assesments fees, credits, and exclusions in effect in different states, the select committee was presented with scenarios involving a hypothetical property and casualty (P&C) insurance company and a hypothetical life and health (L&H) insurance company.

The hypothetical Virginia-domiciled P&C company is a stock company with one million shares of authorized and outstanding common stock. All of its investments are in U.S. Treasury securities. It is licensed and writes business in eight states (Virginia, Florida, Georgia, Maryland, New York, North Carolina, Pennsylvania, and South Carolina).

The seven other states were selected on the basis of their location or because they featured elements not used in Virginia (i.e., income tax, franchise tax, local tax, retaliatory tax credit). None of the states selected had gross premium tax rates higher than Virginia, and only one taxed premiums at the same rate. In each of these states, the hypothetical company has appointed 50 agents to solicit business. It does not have any regional offices in other states. The company's premiums written in each of the eight states where it writes business are $10 million, for a total premium income of $80 million. For 1995, the company reported a net profit of $8 million, which can be evenly allocated to each state in which it does business.

In each of the eight states, aggregate premiums written are as follows:

Fire	10%
Allied Lines	10%
Homeowners multiple peril	10%
Commercial multiple peril (nonliability portion)	10%
Commercial multiple peril (liability portion)	10%
Private passenger auto liability	30%
Private passenger auto physical damage	20%

Appendix H illustrates the variety of taxes and fees the hypothetical Virginia P&C company would be required to pay to each of the eight states in which it does business. It indicates that:

- The total of taxes and fees, before the retaliatory tax, is higher in Virginia ($287,550) than in any of the other seven states. Among the other states, taxes and fees before retaliation range from $200,190 (Pennsylvania) to $253,308 (North Carolina).

- The Virginia P&C company would have to pay retaliatory taxes to each of the other seven states. The largest amounts would be paid to Maryland ($85,050) and Pennsylvania ($87,360). Both of these states have a gross premium tax rate of 2.0 percent, compared with Virginia's rate of 2.25 percent. Beyond the gross premium tax rate, there are no other major charges to do business in Maryland or Pennsylvania. Virginia's assessment of the Fire Programs Fund tax, HEAT fee, and the SCC's maintenance assessment widen the gap between the taxes and fees due to Virginia compared to those due to Maryland or Pennsylvania.

- The lowest retaliatory taxes would be paid by the Virginia P&C company to North Carolina ($12,057). North Carolina allows retaliation only on the gross premium tax. While the premium tax rate in North Carolina is 1.9 percent, there is an additional gross premium tax on fire insurance premiums (1.33 percent), of which 75 percent is considered in calculating the retaliatory tax liability. All other fees and assessments to write business in North Carolina are $20,000 less than those charges in Virginia.

- In the other four states, the hypothetical Virginia company would pay between $55,550 and $78,200 of retaliatory taxes. All of these states except Georgia have premium taxes (including the corporate income tax in Florida and the franchise tax in New York) that are lower than the premium tax in Virginia. In these states, the special fund fees generally are comparable to or exceed the rates of these other fees in

Virginia, so the difference in the tax burden before retaliation is attributable to Virginia's higher gross premium tax rate. In Georgia, the gross premium tax rate is the same as Virginia's -- 2.25 percent. However, Georgia does not have any other substantial charges that compare to the special fund fees and assessments charged in Virginia.

- After calculating total taxes and fees payable to all eight states, including retaliatory taxes, the Virginia P&C company would pay almost $2.28 million in taxes on fees on before-tax profit of $8 million, or a rate of 28.5 percent of net income.

The same type of analysis was then performed to determine the tax burden on the identical P&C insurance company if it was domiciled in the other seven sample states. The total amount of taxes and fees which identical hypothetical P&C companies would pay depending on the company's state of domicile varies widely. In this analysis, all of the elements of the Virginia hypothetical company are assumed to be the same except the company's state of domicile and the location of its headquarters. The results of this analysis are displayed in Appendix I, which shows the taxes that would be payable to each state in which it does business. This analysis indicates that:

- The total amount of taxes and fees, including retaliatory taxes, payable by the same hypothetical P&C company is higher if it is based in Virginia ($2,279,615) than in any of the other states. Among the other states, the totals range from $1,844,623 (Georgia and Pennsylvania) to $2,061,706 (North Carolina).

- Georgia, which has the same 2.25 percent gross premium tax rate charged by Virginia, offsets the effect of its comparatively high rate by providing domestic companies a credit for retaliatory taxes paid to other states. In this hypothetical situation, the credit reduces the tax liability of the Georgia insurer by $131,192. The credit reduces the amount of gross premium tax collected by Georgia on its domestic company from $236,900 to $105,708.

- The states other than Georgia where the total of taxes and fees payable are the smallest (Maryland and Pennsylvania) are states where very little is paid in retaliatory taxes. The reason for the low retaliatory tax burden in these states is attributable to the combination of a low gross premium tax rate and limited supplemental fees and assessments.

- Virginia collects no money in retaliatory taxes from companies based in any of the other seven states in this scenario. At the same time, a company based in Virginia would be required to pay $434,992 in retaliatory taxes to the other seven states.

A similar analysis was conducted for a hypothetical life and health insurer. The hypothetical average L&H company is similar in many respects to the hypothetical average P&C company. The hypothetical Virginia-domiciled L&H company is a stock company with one million shares of authorized and outstanding common stock. All of its investments are in U.S. Treasury securities. It is licensed and writes business in the same eight states (Virginia, Florida, Georgia, Maryland, New York, North Carolina, Pennsylvania, and South Carolina).

In each of these states, it has appointed 50 agents to solicit business. It does not have any regional offices in other states. The company's premiums written in each of the eight states where it writes business are $10 million, for a total premium income of $80 million. For 1995, the company reported a net profit of $8 million, which can be evenly allocated to each of the eight states in which it does business. In each of these states, aggregate premiums written are as follows:

Life Insurance	40%
Annuity Considerations	40%
Accident and Health Insurance	20%

Appendix J illustrates the variety of taxes and fees the hypothetical Virginia L&H company would be required to pay to each of the eight states in which it does business. It reveals the following:

- The total of taxes and fees before the retaliatory tax are highest in Florida ($150,250), and are second highest in Virginia ($140,050). Among the other states, taxes and fees before retaliation range from $103,000 (South Carolina) to $139,275 (New York).

- The Virginia L&H company would pay retaliatory taxes to six of the other seven states. The largest amounts would be paid to South Carolina ($38,450). The life and the accident/health premium tax rates in South Carolina are much lower than in Virginia. South Carolina's tax rate is 0.75 percent on life premiums and 1.25 percent on accident/health premiums; the rate for both types of premiums in Virginia is 2.25 percent. Even with the municipal tax imposed by South Carolina's localities, total taxes before retaliation are $37,050 less than in Virginia. After paying retaliatory tax, the total tax due to South Carolina exceeds the amount due to Virginia by $1,400.

- No retaliatory tax would be paid by the Virginia P&C company to Florida. This is due to Florida being the only of the eight states that imposes the premium tax on annuity considerations after January 1, 1996. Prior to 1996, Pennsylvania subjected annuity considerations to the premium tax. Though Florida's tax rates for life and accident/health (1.75 percent) are lower than Virginia's tax rates (2 percent), the additional taxing of annuities makes the total tax and fee burden in Florida higher than in Virginia.

- The Virginia-based L&H company would pay between $775 and $21,000 in retaliatory taxes to the other five states. In four of these states, the gross premium tax rate is lower than Virginia's. While Georgia's premium tax rate is the same as Virginia's, a retaliatory tax is assessed because Virginia levies additional fees which make the total tax and fee burden greater in Virginia.

- The hypothetical Virginia-based L&H company would pay $1,136,815 in taxes and fees to all eight states on profits of $8 million. The effective rate (14.2 percent) is substantially lower than the rate paid by the hypothetical Virginia-based P&C company (28.5 percent) primarily because (i) revenues attributable to annuities, which comprise 40 percent of premiums in this scenario, are not subject to the gross premium tax and (ii) the L&H company is not required to pay special taxes such as the Fire Program Fund and HEAT fees.

Appendix K estimates the amounts of taxes and fees which L&H companies, identical to the hypothetical L&H company addressed in Table 3 except for the location of their home state, would pay if they were based in each of the eight states. The results indicate that:

- The total amount of taxes and fees, including retaliatory taxes, payable by the same hypothetical L&H company is highest in Florida ($1,167,365). This is attributable to Florida's taxation of annuity considerations. A Florida-based company is the only one that would be required to pay retaliatory tax to Virginia.

- Virginia's total of taxes and fees ($1,136,815) is the second highest of the eight states. Among the other six states, the total of taxes and fees ranges among a relatively narrow band between $1,036,005 (South Carolina and Georgia) to $1,062,935 (North Carolina).

- As with the hypothetical P&C companies, Georgia-based insurers pay less in total taxes and fees than Virginia-based companies despite the fact that the premium tax rates are identical (2.25 percent). Of the $100,810 in taxes and fees payable by a Virginia-based company in excess of those payable by a Georgia-based company, the bulk ($87,535) is attributable to Georgia's credit against premium taxes for retaliatory taxes paid to other states.

- L&H companies earning the same amount of revenue pay approximately 40 percent less in taxes and fees than P&C companies. This difference is primarily attributable to the exclusion of annuity considerations in most states. In this hypothetical scenario, annuities account for 40 percent of the companies' premium income.

The comparisons of taxes and fees among these eight states is based on a purely hypothetical set of parameters. Changes in the composition of business done by the hypothetical companies, as well as in the states used in the sample, would change the tentative conclusions regarding the comparative tax burden.

B. OPTIONS FOR REDUCING THE TAX BURDEN ON VIRGINIA'S INSURERS

1. Credit for Retaliatory Taxes Paid to Other States

Retaliatory taxes have the effect of raising the premium taxes paid by a company based in a state with a high tax rate on premiums earned in states with lower tax rates. As a result, a company may be reluctant to change its domicile to a state with a premium tax rate that exceeds the rate charged in its current home state. Four states attempt to offset the effect of retaliatory taxes by giving domestic insurers a credit against their premium tax liability for all or a portion of the retaliatory tax payments to other states. For example, Georgia allows its domestic insurers to reduce their premium tax liability by the amount of retaliatory taxes paid to other states. New York insurers may take a credit against their franchise tax liability for 90 percent of their retaliatory taxes paid to other states.

The revenue impact of establishing a credit against Virginia premium tax liability for retaliatory taxes paid to other states will depend on the scope of the credit. If (i) the credit is allowed for the full amount of retaliatory taxes paid, (ii) Virginia insurers continue to do the same amount of business in other states, and (iii) the rates and structures of insurance taxation in Virginia and other states remain unchanged, then a credit for retaliatory taxes paid to other states would be equal to the amount Virginia insurers paid to other states. Based on 1995 retaliatory tax payments, a credit against premium tax liability would reduce Virginia general fund revenue by an estimated $2.8 million.

The effect of a credit for retaliatory taxes on future general fund revenue is difficult to predict. If a large national insurer changed its state of incorporation to Virginia, a retaliatory tax credit could have a substantial negative revenue impact. For example, a foreign company currently writing a large amount of business in Virginia would be paying substantial premium taxes to the Commonwealth. If it became domiciled in Virginia and was eligible for a credit against its premium tax liability for retaliatory taxes paid to all other states where it sells insurance, the amount of premium taxes collected by the Commonwealth from that company could be reduced substantially.

Another feature of a retaliatory tax credit that renders its future fiscal impact difficult to gauge is that it would be subject to legislative changes in other states. If several other states lowered their gross premium tax rates, the amount of retaliatory taxes paid by Virginia-domiciled insurers would increase. This in turn would increase the amount of the credit taken by Virginia insurers, and the revenue collected by Virginia would fall by an equal amount. Another potential drawback is the possibility that a company could change its state of domicile to Virginia, and become eligible for a retaliatory tax credit, without moving its operations to the Commonwealth.

The volatility and uncertainty of providing a credit for all retaliatory taxes may be tempered by limiting it to a percentage of the amount of such taxes paid to other states, or capping the amount of the credit that may be taken.

2. Reducing Virginia's Gross Premium Tax Rates

Another method of reducing the retaliatory taxes paid by a Virginia-domiciled insurer, as well as reducing the tax burden on all insurers doing business in Virginia, is to reduce the gross premium tax rate. Such a change may make Virginia a more attractive state of domicile for insurance. However, the 1987 reduction in the premium tax rate on property and casualty insurance from 2.75 percent to 2.25 percent did not attract new insurers to Virginia. Such a reduction would reduce the revenue generated from the gross premium tax. However, reduction in the rate of Virginia's gross premium tax rate will not automatically reduce by an equal percentage the amount of revenue collected from the tax. This discrepancy is due to the fact that lowering the gross premium tax rate will increase the amount of retaliatory tax collected by Virginia from foreign insurers. Virginia collects retaliatory tax only from insurers domiciled in those states where taxes and fees are higher than the amount Virginia assesses against such insurers. Thus, lower revenues from Virginia's gross premium tax would be offset to some extent by greater retaliatory tax revenues. Calculating the amount of the offsetting increase in retaliatory tax revenues is difficult. The SCC's Bureau of Insurance has examined the returns of foreign companies conducting business in Virginia in 1995

and has determined how much retaliatory tax would have been due had Virginia's tax rate structure been lower under several scenarios.

Under the first scenario, the gross premium tax rate levied against all insurers currently paying 2.25 percent is reduced to 2.0 percent. The results are depicted in Table 4. Estimated gross premium tax revenue, before adjusting for increased retaliatory tax collections, would fall from $204,351,780 to $179,836,980, a decline of $24,514,800. However, retaliatory tax collections would be expected to increase by $2,650,094, resulting in a net revenue loss of $21,864,706.

Table 4
All Insurers Currently Taxed at 2.25% Changed to 2.0%

COMPANY TYPE	1995 Taxable Premiums	1995 Tax Rate	Estimated Revenue
Mutual Assessment Life	552,710	0.01	5,527
Burial Society	851,679	0.01	8,517
Cooperative Nonprofit Life	46,434	0.01	464
Dental/Optom. Plan	29,862,021	0.0075	223,965
Fraternal Benefit Society	37,620,172	0	0
HMO	1,073,195,508	0	0
Home Protection Companies	8,081,187	0.02	161,624
Health Services Plan	41,751,887	0.0075	313,139
Joint Underwriting Association	0	0.02	0
L&H	4,926,414,558	0.02	98,528,291
Legal Services Plans	1,314,068	0.02	26,281
Mutual Assessment P&C	52,624,838	0.01	526,248
P&C	4,773,062,532	0.02	95,461,251
Risk Retention Group	42,171,253	0.02	843,425
Title	86,657,513	0.02	1,733,150
Totals	11,074,206,360		197,831,882
Less: Trigon Ind. & +25 Group	808,969,965	-0.015	(12,134,549
Actual 1995 GF Credits	5,860,353		(5,860,353)
Total Est. PLT Revenue Scenario 1			179,836,980
Actual 1995 PLT Revenue			204,351,780
PLT Revenue Gain (Loss) Scenario 1			(24,514,800
Retaliatory Gain Loss Scenario 1			2,650,094
Net Revenue Gain (Loss) Scenario 1			(21,864,706

The second scenario illustrates the revenue impact of lowering only the gross premium tax rate on property and casualty insurers from 2.25 percent to 2.0 percent. As shown in Table 5, gross premium tax revenues would be expected to drop by $11,853,202, from $204,351,780 to $192,498,578. Retaliatory tax collections would, however, be expected to increase by $1,581,955. The net revenue loss to the general fund would be $10,271,248.

Table 5
Property and Casualty Insurance Premiums Taxed at 2.0%

COMPANY TYPE	1995 Taxable Premiums	1995 Tax Rate	Estimated Revenue
Mutual Assessment Life	552,710	0.01	5,527
Burial Society	851,679	0.01	8,517
Cooperative Nonprofit Life	46,434	0.01	464
Dental/Optom. Plan	29,862,021	0.0075	223,965
Fraternal Benefit Society	37,620,172	0	0
HMO	1,073,195,508	0	0
Home Protection Companies	8,081,187	0.0225	181,827
Health Services Plan	41,751,887	0.0075	313,139
Joint Underwriting Association	0	0.0225	0
L&H	4,926,414,558	0.0225	110,844,328
Legal Services Plans	1,314,068	0.0225	29,567
Mutual Assessment P&C	52,624,838	0.01	526,248
P&C	4,773,062,532	0.02	95,461,251
Risk Retention Group	42,171,253	0.0225	948,853
Title	86,657,513	0.0225	1,949,794
Totals	11,074,206,360		210,493,480
Less: Trigon Ind. & +25 Group	808,969,965	-0.015	(12,134,549)
Actual 1995 GF Credits	5,860,353		(5,860,353)
Total Est. PLT Revenue Scenario 2			192,498,578
Actual 1995 PLT Revenue			204,351,780
PLT Revenue Gain (Loss) Scenario 2			(11,853,202)
Retaliatory Gain Loss Scenario 2			1,581,955
Net Revenue Gain (Loss) Scenario 2			(10,271,248)

3. Credit for Special Fund Fees

In calculating a company's retaliatory tax liability, most states compare the gross premium tax and other regulatory taxes and fees levied on their insurers. Eliminating, reducing, or providing a credit against premium taxes for additional taxes and regulatory fees will reduce the retaliatory taxes payable to states with lower total tax and fee burdens.

Table 6 illustrates the effect of maintaining gross premium tax rates at their current levels, but providing all insurers (domestic and foreign) with a credit against gross premium tax liability for Fire Programs Fund, Flood Prevention and Protection Assistance Fund, and HEAT program payments. These credits would reduce the gross amount of tax and fee collections by $12,714,690.

Table 6
Providing a Tax Credit for Fire, Flood, and Automobile Theft Fund Assessments

COMPANY TYPE	1995 Taxable Premiums	1995 Tax Rate	Estimated Revenue
Mutual Assessment Life	552,710	0.01	5,527
Burial Society	851,679	0.01	8,517
Cooperative Nonprofit Life	46,434	0.01	464
Dental/Optom. Plan	29,862,021	0.0075	223,965
Fraternal Benefit Society	37,620,172	0	0
HMO	1,073,195,508	0	0
Home Protection Companies	8,081,187	0.0225	181,827
Health Services Plan	41,751,887	0.0075	313,139
Joint Underwriting Association	0	0.0225	0
L&H	4,926,414,558	0.0225	110,844,328
Legal Services Plans	1,314,068	0.0225	29,567
Mutual Assessment P&C	52,624,838	0.01	526,248
P&C	4,773,062,532	0.0225	107,393,907
Risk Retention Group	42,171,253	0.0225	948,853
Title	86,657,513	0.0225	1,949,794
Totals	11,074,206,360		222,426,136
Less: Trigon Ind. & +25 Group	808,969,965	-0.015	(12,134,549)
Actual 1995 GF Credits	5,860,353		(5,860,353)
Credit for Fire Program Fund			(11,863,980)
Credit for Flood Payments			(103,118)
Credit for HEAT Payments			(827,046)
Total Est. PLT Revenue Scenario 3			191,637,090
Actual 1995 PLT Revenue			204,351,780
PLT Revenue Gain (Loss) Scenario 3			(12,714,690)
Retaliatory Gain Loss Scenario 3			1,008,327
Net Revenue Gain (Loss) Scenario 3			(11,706,363)

When estimated additional retaliatory tax revenues of $1,008,327 are included, the net loss to the Commonwealth would be approximately $11.7 million. If these fees were eliminated instead of being offset by a credit against premium tax liability, the net impact would be the same as it would if the General Assembly appropriated the same amount of money to the special funds. However, eliminating these nongeneral revenue sources would not ensure their continued funding at present levels.

4. Reciprocal Nonretaliation Agreements With Other States

A fourth method of reducing the effect of retaliatory taxes is by agreements among states. The 1986 Report of the Secretary of Finance on the Taxation of Insurance Companies in Virginia (House Document 22) notes:

> There is not much that one state can do unilaterally to eradicate retaliatory laws. A few states have established policies of reciprocal nonretaliation with specific states. Both the Council of State Governments and the National Association of Tax Administrators support an end to retaliation through state legislation on reciprocal nonretaliation.

Four states have agreed not to impose retaliatory taxes on companies based in other states on a reciprocal basis. A fifth state, Hawaii, does not impose retaliatory taxes on companies from any state.

Massachusetts statute (§ 63:242A) provides that insurers in any state which does not impose a retaliatory tax on Massachusetts insurers are not subject to retaliation.

Minnesota statute (§ 60A.19), adopted in 1991, provides that the retaliatory tax laws do not apply to companies domiciled in states which do not impose retaliatory taxes or do not enforce retaliation on a reciprocal basis.

New York statute (Insurance Code § 1112) provides that the retaliatory tax does not apply to insurers organized in states whose laws do not impose retaliatory taxes or which grant, on a reciprocal basis, exemptions to New York insurers.

Rhode Island is the most recent state to adopt a reciprocal nonretaliation law. Section 27-2-17, effective July 1, 1994, provides that retaliation does not apply to insurance companies incorporated in a state whose laws do not impose retaliatory taxes.

Bureau of Insurance data indicates that in 1995 Virginia-domiciled companies paid $103,204 in retaliatory taxes to the four states with reciprocal nonretaliation laws. In the same period, Virginia collected nearly $438,000 in retaliatory taxes from companies domiciled in these states.

C. AMORTIZATION OF GUARANTY FUND TAX CREDITS

The Commonwealth currently permits insurance companies to take a credit against their premium tax liability for assessments paid to the property and casualty guaranty association and the life and health guaranty association. Increasing the amount of the credit that can be taken for guaranty association assessments may reduce a company's premium tax liability, thereby decreasing the retaliatory taxes payable to other states.

Forty-one states allow tax credits for some guaranty fund assessments paid by insurers. However, 23 states do not allow tax credits for property and casualty guaranty fund assessments. Of the states with credits for guaranty fund assessments for life and health insurers, twenty-nine states use a five-year amortization period, and six states a ten-year amortization period. Of the states with property and casualty guaranty fund assessment credits, thirteen use a five-year amortization period, and two use a ten-year amortization period. Appendix L summarizes the guaranty fund tax credit allowances in other states.

Virginia's formula for computing guaranty fund credits is unique. The maximum amount that an insurer can be assessed for guarantee fund obligations in any calendar year is limited to two percent of the prior year's premiums. Direct gross premium income for the year preceding the assessment is multiplied by 0.05 percent, and the product is the maximum amount of tax credit that may be claimed in each succeeding year until the full amount of the assessment is recovered. The length of the amortization schedule varies in proportion to the size of the assessment relative to an insurer's premiums in the preceding year. As a result, amortization schedules are different for each assessment against each insurer, and can extend 40 years or more into the future.

Virginia's method of calculating guaranty fund credits minimizes the pressure on the general fund to absorb the cost of large assessments. However, it imposes administrative burdens on the regulators and the insurance companies.

Appendix M shows the effect on general fund revenues if a five- or ten-year amortization period had been in effect in Virginia. A five-year amortization schedule would have caused a $13.7 million reduction in revenues, compared to the current method, over the period 1996-2000. A ten-year amortization schedule would have caused a $14.4 million reduction in revenues over the period 1996-2005. The effect of a change in the amortization periods for future years cannot be calculated because guaranty fund assessments, made when a company becomes insolvent, are unpredictable.

D. DISTRIBUTIONS OF DIVIDENDS BY HOLDING COMPANY SYSTEM MEMBERS

Though not related to Virginia's taxing of insurance companies, the select committee was advised that changing the rules regarding the distribution of dividends by members of insurance holding companies can make Virginia more attractive to insurers.

Several states limit the amount of surplus that may be distributed to the greater of (i) 10 percent of the company's surplus or (ii) the company's net operating income for the previous year. In Virginia, the applicable standard is the lesser of these two amounts, rather than the greater of the two. It was suggested that this requirement tends to depress the price of a company's stock, thereby making Virginia less attractive as a state of domicile to insurers.

Section 38.2-1330 provides that no insurer subject to registration under § 38.2-1329 (a member of an insurance holding company system) shall pay any extraordinary dividend to its shareholders until approved by the Commission. An extrac :inary dividend is one whose value "exceeds the lesser of either (i) 10 percent of the insurer's surplus to policyholders as of the immediately preceding December 31, or (ii) the net gain from operations of the insurer . . . for the twelve-month period ending the immediately preceding December 31." The SCC must approve or disapprove a proposed distribution of extraordinary dividends within 30 days following receipt of notice of the declaration of distribution, and the distribution shall be deemed approved if it is not disapproved within the 30-day period.

When Title 38.1 of the Virginia Code was recodified in 1986, the applicable language defined an extraordinary dividend as one which "exceeds either" 10 percent of its surplus or its net operating income, and was silent as to whether it was the greater of lesser of the two numbers. In 1987, the section was amended to specifically provide that an extraordinary dividend was the greater of either of these two figures. In 1992, in connection with revisions relating to the financial regulation of insurers, the phrase "greater than" was stricken and replaced with the current "lesser than" requirement. Simultaneously, the section was amended to provide that in determining whether a dividend is extraordinary, an insurer other than a life insurer may carry forward net operating income from the second and third preceding calendar years, less dividends paid in the second and immediately preceding years.

Other states have similar statutes controlling the distribution of extraordinary dividends by members of insurance holding companies. Illinois law specifically provides that an extraordinary dividend is one exceeding the greater of 10 percent of the company's surplus or the company's net operating income for the previous years. In Maryland, an extraordinary dividend includes a dividend of cash or property with a fair market value exceeding 10 percent of the insurer's surplus. However, if a company has an earned surplus that exceeds 10 percent of

policyholder surplus as of the preceding December 31 and has over 75 percent of its direct gross written premium in homeowners insurance and automobile liability and physical damage insurance, then the test for extraordinary dividends is whether they exceed the greater of 10 percent of the insurer's surplus or its net gain or net income for the preceding year.

IV. ACTIVITIES OF THE SELECT COMMITTEE

The select committee was required by HJR 202 to report its findings and recommendations to the Governor and the 1997 Session of the General Assembly. In pursuing this charge, the select committee met three times.

- July 9, 1996: At its organizational meeting, the select committee elected William H. Howell as its Chairman and Charles J. Colgan as its vice chairman. The initial meeting of the select committee featured a background report on the system of taxing insurance companies in the Commonwealth and other states.

  Representatives of domestic and foreign insurers advised the select committee that reducing Virginia's gross premium tax rate could reduce the retaliatory taxes paid by Virginia-based insurers to other states, but increase the retaliatory taxes paid by foreign insurers to Virginia. Eric Krebs of First Colony Life Insurance Company suggested that reducing the current method for amortizing guaranty fund assessments would reduce the retaliatory tax burden on domestic insurers. Chris LaGow, speaking on behalf of the Alliance of American Insurers and Nationwide Insurance Company, suggested that reducing Virginia's gross premium tax rate could be an economic development tool by making Virginia a more attractive place for insurers to locate. Ben Lacy, representing the American Council of Life Insurers, noted that a benefit of the gross premiums tax is its relative ease of administration. Taxing insurers on the basis of profitability would be difficult, and replacing the gross premiums tax with Virginia's corporate income tax at current rates would substantially reduce general fund revenues.

- October 10, 1996: The second meeting of the select committee featured a presentation by Chris Brockwell of the Bureau of Insurance explaining the procedure for guaranty fund assessment tax credits. The select committee also received presentations addressing issues of retaliatory tax credits, the revenue impact of premium tax rate reductions, reciprocal nonretaliation agreements, and the comparative tax burdens among a sample of states on hypothetical insurance companies.

The members were also advised on two ongoing studies that may affect the taxation of insurance companies in the Commonwealth. Rob Omberg of the Division of Legislative Services presented a report on the study being conducted pursuant to HJR 55 on the feasibility of establishing an insurance fraud division within the State Corporation Commission. The establishment of an insurance fraud division was expected to cost $2.5 million in the first year. If this expense is funded by an increase in the maintenance assessment paid by all insurance companies, the assessment rate could be expected to increase from its current level of 0.06 percent of gross premium income to 0.08 percent.

Staff also reported on the Joint Health Care Commission's evaluation of the effect of guaranteed issue reforms on the taxation of open enrollment carriers. In its study, conducted pursuant to the second enactment clause of HB 1026 (1996), Commission staff noted that if the Commonwealth requires guaranteed issue of the Essential and Standard plans by all carriers in the individual market, the open enrollment carriers would no longer be the "insurers of last resort." Accordingly, the primary reason for taxing premiums of open enrollment carriers at 0.75 percent (rather than the 2.25 percent paid by other insurers) would be eliminated. If the tax preference for open enrollment carriers were repealed, and all premiums from individual contracts were taxed at 2.25 percent, open enrollment carriers would pay an additional $5.2 million in premium taxes.

In addition, the Health Care Commission study has noted that the two open enrollment carriers in the Commonwealth (Trigon/Blue Cross Blue Shield and Blue Cross Blue Shield of the National Capitol Area) are not taxed at the same rate on their premium income derived from primary small groups. Trigon/Blue Cross Blue Shield is required to pay a rate of 2.25 percent on this premium income, while Blue Cross Blue Shield of the National Capitol Area pays a rate of 0.75 percent. Taxing both open enrollment carriers at the same 2.25 percent rate would increase gross premium tax revenue by $239,327.

- December 9, 1996: At its final meeting, the select committee considered several options for amending Virginia's system of taxing insurance companies. The members endorsed a proposal to repeal the Flood Prevention and Protection Assistance Fund Assessment. The recommendation of the select committee is addressed in Part V of this report.

V. RECOMMENDATIONS AND CONCLUSIONS

The select committee acknowledges that insurance companies are increasingly willing to leave their traditional industry centers for locations offering advantageous environments. Accordingly, Virginia has the opportunity to capitalize on this trend by offering an environment, of which its tax system is an important facet, that is competitive with that of other states. Simultaneously, the ability of insurers to relocate to other states provides an impetus for the Commonwealth to ensure that its existing companies do not feel compelled to change their domicile. In the course of its study, the select committee also recognized that the proceeds of its gross receipts tax on insurance companies are a substantial source of general fund revenue.

The select committee considered, but took no action on, the following options:

1. Establishing a five-year or ten-year amortization period for guaranty fund assessment credits.

2. Reducing the gross premium tax rate on life and health, property and casualty, and title insurance from 2.25 percent to 2 percent.

3. Reducing the gross premium tax rate on property and casualty insurers from 2.25 percent to 2 percent.

4. Providing a credit for all or a portion of the retaliatory taxes paid by domestic insurers.

5. Allowing members of insurance holding company systems to pay dividends, without regulatory approval, at amounts not exceeding the greater of 10 percent of accumulated profits or the previous year's net earnings.

6. Adopting a reciprocal nonretaliation statute providing that Virginia will not assess retaliatory taxes against insurers domiciled in states which do not assess retaliatory taxes against Virginia insurers.

7. Providing a credit against premium tax liability for Fire Programs fund assessments and HEAT Fund assessments.

The select committee recommends that the General Assembly adopt legislation (Appendix N) repealing the Flood Prevention and Protection Assistance Fund assessment. This assessment requires companies writing flood insurance in the Commonwealth to pay an additional assessment of one percent of the amount of premiums. However, flood insurance written under

the National Flood Insurers Act is exempt from the assessment. Companies writing flood insurance are required to pay a minimum $100 fee. The Bureau of Insurance reported that all of the flood insurance sold in Virginia is written under the National Flood Insurance program. Consequently, the revenue generated from the assessment is minimal. In fiscal year 1995, the SCC collected $139,185 in flood insurance assessments. It was noted that some companies writing policies under the National Flood Insurance Act paid more than the $100 minimum fee required. The select committee agreed that the costs of compliance and administration related to a $100 assessment outweighed the benefits received, and that an appropriation from the general fund would provide an adequate replacement source of revenue for the Flood Prevention and Protection Program.

The select committee extends its gratitude to all interested persons who contributed to its work. The members wish to acknowledge the technical assistance provided by Alfred W. Gross, Commissioner of Insurance, and Chris Brockwell and Brian Gaudiose of the Bureau of Insurance.

Respectfully submitted,

Del. William J. Howell, *Chairman*
Sen. Charles J. Colgan, *Vice Chairman*
Del. Watkins M. Abbitt
Del. Jay W. DeBoer
Del. Jackie T. Stump
Sen. Kevin G. Miller
Sen. Walter A. Stosch

HOUSE JOINT RESOLUTION NO. 202

Establishing a select committee of the House Committee on Finance and the Senate Committee on Finance to examine Virginia's gross receipts tax imposed on insurance companies.

Agreed to by the House of Delegates, February 8, 1996
Agreed to by the Senate, February 21, 1996

WHEREAS, the Commonwealth taxes insurance companies on the basis of their gross receipts from insurance premiums; and

WHEREAS, gross receipts taxes have been criticized by some as being an unfair basis of taxation because it is unrelated to profitability; and

WHEREAS, insurance companies are not taxed on some segments of their business because they do not generate insurance premiums; and

WHEREAS, insurance companies are one of the last sectors of the economy which the Commonwealth still taxes on the basis of gross receipts; and

WHEREAS, insurance businesses include different types of companies offering such diverse products as property, casualty, life, accident, and automobile insurance; and

WHEREAS, the insurance industry is a growth area which is marketing new products to consumers and businesses; and

WHEREAS, Virginia's taxation of insurance companies has only been studied once since 1914; and

WHEREAS, Virginia possesses an opportunity to attract insurance companies to expand or locate in Virginia if the state tax structure is competitive with that of other states; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a select committee of the House Committee on Finance and the Senate Committee on Finance be established to (i) examine Virginia's gross receipts tax imposed on insurance companies and (ii) ensure that it is equitable and is competitive with that of other states. The select committee shall be composed of 7 members to be appointed as follows: 4 members from the House Committee on Finance to be appointed by the Speaker of the House; and 3 members from the Senate Committee on Finance to be appointed by the Senate Committee on Privileges and Elections.

The direct costs of this study shall not exceed $4,200.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the select committee, upon request.

The select committee shall complete its work in time to submit its findings and recommendations to the Governor and the 1997 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

SELECTED INSURANCE CARRIER EMPLOYMENT 1995

State	Life Employment	P/C Employment	Total
California	26,113	61,983	88,096
New York	38,474	37,847	76,321
Illinois	22,285	46,589	68,874
Texas	23,857	38,009	61,866
Pennsylvania	26,309	31,814	58,123
Connecticut	45,505	10,864	56,369
Ohio	16,555	30,936	47,491
Florida	21,033	24,763	45,796
New Jersey	21,369	23,385	44,754
Massachusetts	25,097	16,261	41,358
Georgia	13,496	16,163	29,659
Wisconsin	11,920	17,172	29,092
Michigan	7,982	17,572	25,554
Minnesota	10,616	12,844	23,460
Indiana	10,418	11,130	21,548
Iowa	14,852	6,007	20,859
Missouri	8,131	11,331	19,462
Virginia (#18)	6,625	12,706	19,331
North Carolina	6,915	12,344	19,259
Maryland	6,594	9,972	16,566
Colorado	5,262	9,038	14,300
Washington	4,004	10,021	14,025
Tennessee	4,698	6,759	11,457
Alabama	5,456	5,305	10,761
Arizona	3,709	5,431	9,140
Kansas	2,676	6,183	8,859
Oregon	2,004	6,092	8,096
Louisiana	3,363	4,456	7,819
Nebraska	3,143	4,080	7,223
New Hampshire	1,511	5,433	6,944
Oklahoma	2,777	3,717	6,494
Kentucky	3,274	2,665	5,939
South Carolina	3,446	2,477	5,923
Rhode Island	1,835	3,111	4,946
Mississippi	2,077	2,563	4,640
Utah	1,781	1,252	3,033

SELECTED INSURANCE CARRIER EMPLOYMENT
1995

State	Life Employment	P/C Employment	Total
D.C.	2,112	475	2,587
Arkansas	1,012	1,493	2,505
Hawaii	759	1,384	2,143
Vermont	1,206	747	1,953
West Virginia	931	1,017	1,948
New Mexico	1,045	861	1,906
Maine	424	1,253	1,677
South Dakota	657	629	1,286
North Dakota	417	740	1,157
Idaho	203	946	1,149
Delaware	634	259	893
Nevada	298	592	890
Montana	202	490	692
Alaska	106	316	422
Wyoming	27	259	286
Totals	**425,195**	**539,736**	**964,931**

TAX, FEE AND ASSESSMENT STRUCTURE FOR INSURANCE COMPANIES IN VIRGINIA

Classes of Insurance	Gross Premium Tax	Insurance Bureau Assessment	Workers' Compensation Commission	Fire Programs[1]	Automobile Theft (HEAT)[2]	Flood Prevention & Protection[3]	Corporate Income Tax
Life	2.25%	.06%					
Accident & Sickness*	2.25%	.06%					
Property & Casualty**	2.25%	.06%		1%	0.25%	1%	
Cooperative Nonprofit Life Benefit	1%	.06%					
Cooperative or Assessment Life and Casualty	1%	.06%					
Burial Societies	1%	.06%					
Title Insurance	2.25%	.06%					
Mutual Assessment Fire (4 counties or less)	-----	.06%		1%		1%	
Mutual Assessment Fire (More than 4 counties)	1%	.06%		1%		1%	
Home Protection	2.25%	.06%					
Prepaid Legal Plans	2.25%	.06%					
Prepaid Hospital, Medical, Surgical, Dental, Optometric	0.75%	.06%					
HMOs	-----	.06%					6%
Fraternal Benefit Societies	-----	.06%					
Workers' Compensation	-----	-----	2.5%				

* Trigon Blue Cross/Blue Shield pays 2.25% for small group business and 0.75% for individual and group business for groups over 25.
** Property and casualty tax assessment excludes workers' compensation premiums.
1. Based on fire, allied lines, multiple peril, and marine insurance, with a minimum tax of $100.
2. Based on auto physical damage insurance, other than collision coverage.
3. Based on any flood insurance written, excluding policies written under the National Insurance Act of 1968, with a minimum tax of $100.

APPENDIX D

TAXES, FEES AND ASSESSMENTS COLLECTED BY THE BUREAU OF INSURANCE FOR THE FISCAL YEARS ENDING JUNE 30, 1993, JUNE 30, 1994, AND JUNE 30, 1995

General Fund	1993	1994	1995
Gross Premium Taxes of Insurance Companies	$180,304,705.00	$196,416,402.91	$209,784,063.00
Fraternal Benefit Societies Licenses	520.00	500.00	500.00
Hospital, Medical, and Surgical Plans & Salesmen's Licenses	59,630.00	51,750.00	65,040.00
Interest on Delinquent Taxes	124,531.00	1,265.72	129,584.00
Penalty on non-payment of taxes by due date	199,523.00	73,177.39	103,266.00
Special Fund			
Company License Application Fee	14,000.00	14,000.00	18,000.00
Prepaid Legal Service License Fee	0.00	0.00	0.00
Health Maintenance Organization License Fee	500.00	500.00	500.00
Automobile Club/Agent Licenses	7,366.00	7,704.00	7,494.00
Insurance Premium Finance Companies Licenses	11,900.00	12,300.00	11,300.00
Agents Appointment Fees	5,065,260.00	5,365,070.00	5,659,610.00
Surplus Lines Broker Licenses	14,825.00	13,775.00	14,970.00
Agents License Application Fees	249,555.00	259,995.00	295,365.00
Recording, Copying, and Certifying Public Records Fee	32,360.00	47,337.01	59,303.00
Assessments to Insurance Companies for Maintenance of the Bureau of Insurance	7,169,984.00	6,682,583.87	7,985,842.00
Miscellaneous Revenues	164.00	0.19	3.00

APPENDIX D (cont.)

FEES AND TAXES COLLECTED BY THE BUREAU OF INSURANCE FOR THE FISCAL YEARS ENDING JUNE 30, 1993, JUNE 30, 1994, AND JUNE 30, 1995

Special Fund	1993	1994	1995
Recovery of Prior Year Expenses	120,944.00	32,350.19	111,932.00
Fire Programs Fund	8,367,674.00	8,718,677.58	9,038,388.00
Licensing P&C Consultants	35,000.00	38,450.00	41,850.00
SCC Bad Check Fee	75.00	25.00	75.00
Fines Imposed by State Corporation Commission	616,403.00	1,137,283.00	6,083,650.00
Private Review Agents	24,500.00	13,000.00	26,500.00
Flood Assessment Fund	86,178.00	151,393.72	139,185.00
Heat Assessment Fund	679,194.00	682,943.46	748,111.00
Reinsurance Intermediary Broker Fees	1,000.00	2,500.00	2,000.00
Reinsurance Intermediary Manager Fees	0.00	500.00	0.00
Managing General Agent Fees	0.00	3,500.00	6,500.00
Bank Conversion Investigation Fee	3,000.00	0.00	0.00
State Publication Sales	150.00	720.00	660.00
TOTAL	**$203,188,941.00**	**$219,727,704.04**	**240,333,691.00**

Source: 1995 Annual Report of the State Corporation Commission

GROSS PREMIUM TAX RATES ON DOMESTIC INSURANCE COMPANIES, ALL STATES

State	Life	P/C	Notes
Alabama	1.30%	3.60%	Foreign life co. pays 2.9%; rates for all life cos. to be 2.3% by 1999
Alaska	2.70%	2.70%	
Arizona	2.00%	2.00%	
Arkansas	2.50%	2.50%	
California	2.35%	2.35%	
Colorado	2.25%	2.25%	
Connecticut	1.75%	1.75%	
D.C.	2.25%	2.25%	
Delaware	2%	2%	
Florida	1.75%	1.75%	
Georgia	2.25%	2.25%	
Hawaii	2.75%	4.625%	
Idaho	2.75%	2.75%	
Illinois	2.00%	2.00%	Domestic co. with principal place of business in Illinois is exempt
Indiana	2.00%	2.00%	Optional; in lieu of income tax
Iowa	2.00%	2.00%	
Kansas	1.00%	1.00%	Foreign co. pays 2%
Kentucky	N/A	3.50%	Domestic life co. pays franchise tax; foreign life co. pays 2%
Louisiana	2.25%	3.00%	
Maine	2.00%	2.00%	
Maryland	2.00%	2.00%	
Massachusetts	2.00%	2.28%	
Michigan	N/A	N/A	2.3% single business tax
Minnesota	2.00%	2.00%	
Mississippi	3.00%	3.00%	
Missouri	2.00%	2.00%	
Montana	2.75%	2.75%	
Nebraska	1.00%	1.00%	
Nevada	3.50%	3.50%	
New Hampshire	2.00%	2.00%	
New Jersey	2.10%	2.10%	
New Mexico	3.00%	3.00%	
New York	0.80%	1.30%	
North Carolina	1.90%	3.23%	1.9% rate on auto policies
North Dakota	2.00%	1.75%	
Ohio	2.50%	2.50%	Domestic co. pays lesser of 2.5% or franchise tax
Oklahoma	2.25%	2.25%	
Oregon	N/A	N/A	Domestic co. pays income tax; foreign co. pays 2.25%
Pennsylvania	2.00%	2.00%	
Rhode Island	2.00%	2.00%	
South Carolina	0.75%	1.25%	
South Dakota	2.50%	2.50%	
Tennessee	1.75%	2.50%	Foreign life co. pays 1.95%, reduced to 1.75% by 2000
Texas	1.75%	3.50%	First $450,000 of life premiums taxed at 0.875%
Utah	2.25%	2.25%	
Vermont	2.00%	2.00%	
Virginia	2.25%	2.25%	
Washington	2.00%	2.00%	
West Virginia	3.00%	3.00%	
Wisconsin	2.00%	2.00%	Small domestic life co. pays lesser of 2% or license tax; foreign fire co. pays 2.374%
Wyoming	0.75%	0.75%	

Source: National Association of Insurance Commissioners (1995)

APPENDIX F

OTHER TAXES LEVIED ON INSURANCE COMPANIES; SELECTED TAX CREDITS

State	Income or Franchise Tax	Credit Income Tax Against Gross Premiums Tax	Credit for Retaliatory Tax	Local Tax	Credit for Domestic Investments	Home Office/ Employment Tax Credit
Alabama						X
Arkansas	Domestic P/C only					
Colorado						X
Connecticut	Domestic only					
Delaware	X					X
Florida	X					X
Georgia				X		
Hawaii	X		X			X
Illinois	X	X				
Indiana	X	X				X
Kansas	Domestic only				X	
Kentuck-	Domestic Life only					
Louisiana	X	X		X	X	X
Massachusetts	Domestic only					
Michigan	Single Business Tax		X			
Minnesota	Domestic only	X				
Mississippi	X	X	X			
Missouri	X	X		X		
Nebraska	X	X		X		
Nevada						X
N. Hampshire	X	X				
New York	X	X				
Ohio	X	X				
Oklahoma						X
Oregon	Domestic only					
Pennsylvania				X		
Rhode Island						X
S. Carolina				X	X	X
S. Dakota						X
Tennessee	X	X			X	
Texas					X	
Virginia						X(MBF Tax Credit)
W. Virginia				X	X	
Wisconsin	Domestic Life only					
Wyoming			X			
Totals	**22**	**11**	**4**	**7**	**6**	**13**

Source: National Association of Insurance Commissioners (1995).

RANKING BY INSURANCE INDUSTRY EMPLOYMENT COMPARED TO POPULATION

Number	Life Rate	P/C Rate	State	Population	Life and P/C Employment
1	2.35%	2.35%	California	1	88,096
2	0.80%	1.30%	New York	3	76,321
3	2%	2%	Illinois	6	68,874
4	1.75%	3.50%	Texas	2	61,866
5	2%	2%	Pennsylvania	5	58,123
6	1.75%	1.75%	Connecticut	27	56,369
7	2.50%	2.50%	Ohio	7	47,491
8	1.75%	1.75%	Florida	4	45,796
9	2.10%	2.10%	New Jersey	9	44,754
10	2%	2.28%	Massachusetts	13	41,358
11	2.25%	2.25%	Georgia	11	29,659
12	2%	2%	Wisconsin	18	29,092
13	N/A	N/A	Michigan	8	25,554
14	2%	2%	Minnesota	20	23,460
15	2%	2%	Indiana	14	21,548
16	2%	2%	Iowa	30	20,859
17	2%	2%	Missouri	16	19,462
18	2.25%	2.25%	Virginia	12	19,331
19	1.90%	3.23%	North Carolina	10	19,259
20	2%	2%	Maryland	19	16,566
21	2.25%	2.25%	Colorado	26	14,300
22	2%	2%	Washington	15	14,025
23	1.75%	2.50%	Tennessee	17	11,457
24	1.30%	3.60%	Alabama	22	10,761
25	2%	2.00%	Arizona	23	9,140
26	1%	1%	Kansas	32	8,859
27	N/A	N/A	Oregon	29	8,096
28	2.25%	3%	Louisiana	21	7,819
29	1%	1%	Nebraska	37	7,223
30	2%	2%	New Hampshire	41	6,944
31	2.25%	2.25%	Oklahoma	28	6,494
32	N/A	2%	Kentucky	24	5,939
33	0.75%	1.25%	South Carolina	25	5,923
34	2%	2%	Rhode Island	43	4,946
35	3%	3%	Mississippi	31	4,640
36	2.25%	2.25%	Utah	34	3,033
37	2.25%	2.25%	D.C.	50	2,587
38	2.50%	2.50%	Arkansas	33	2,505
39	2.75%	4.625%	Hawaii	40	2,143
40	2%	2%	Vermont	49	1,953
41	3%	4%	West Virginia	35	1,948
42	3%	3%	New Mexico	36	1,906
43	2%	2%	Maine	39	1,677
44	2.50%	2.50%	South Dakota	45	1,286
45	2.00%	1.75%	North Dakota	47	1,157
46	2.75%	2.75%	Idaho	42	1,149
47	2%	2%	Delaware	46	893
48	3.50%	3.50%	Nevada	38	890
49	2.75%	2.75%	Montana	44	692
50	2.70%	2.70%	Alaska	48	422
51	0.75%	0.75%	Wyoming	51	286

Source: NAIC (1995); U.S. Bureau of Labor Statistics

HYPOTHETICAL VIRGINIA P&C COMPANY
ESTIMATED ANNUAL TAXES & FEES IN SELECTED STATES

Tax or Fee	Virginia	Florida	Georgia	Maryland	New York	North Carolina	Pennsylvania	South Carolina
Premium Tax (net)	$225,000	$25,025	$225,000	$200,000	$59,825	$220,590	$200,000	$125,000
Corporate Income Tax	$0	$55,000	$0	$0	$0	$0	$0	$0
Franchise Tax	$0	$0	$0	$0	$81,000	$0	$0	$0
Municipality Tax	$0	$0	$0	$0	$0	$0	$0	$48,000
Fire Dept. Funds	$50,000	$20,550	$0	$0	$80,000	$15,000	$0	$56,400
Pension Funds	$0	$103,500	$10,000	$0	$0	$0	$0	$0
Fee to Support Ins. Dept.	$6,000	$0	$0	$0	$0	$15,993	$0	$0
Other Fund Fees	$5,100	$0	$0	$750	$0	$0	$0	$0
Agent Appointment Fees	$600	$3,000	$500	$1,250	$600	$1,000	$0	$2,000
License/Registration Fees	$850	$1,025	$500	$500	$0	$600	$65	$2,000
Filing Fees	$0	$1,250	$900	$0	$0	$125	$125	$0
Total Before Retaliation	$287,550	$209,350	$236,900	$202,500	$221,425	$253,308	$200,190	$233,400
Retaliatory Tax	$0	$78,200	$50,650	$85,050	$66,125	$12,057	$87,360	$55,550
Grand Total	**$287,550**	**$287,550**	**$287,550**	**$287,550**	**$287,550**	**$265,365**	**$287,550**	**$288,950**

COMPARISON OF INSURANCE TAXES AND FEES PAYABLE BY HYPOTHETICAL PROPERTY & CASUALTY COMPANIES

STATE OF DOMICILE

Operating in:	VIRGINIA Total before retaliation	VIRGINIA Retaliatory tax	VIRGINIA Total	FLORIDA Total before retaliation	FLORIDA Retaliatory tax	FLORIDA Total	GEORGIA Total before retaliation	GEORGIA Retaliatory tax	GEORGIA Total	MARYLAND Total before retaliation	MARYLAND Retaliatory tax	MARYLAND Total
Virginia	287,550	N/A	287,550	287,550	0	287,550	287,550	0	287,550	287,550	0	287,550
Florida	209,350	78,200	287,550	209,350[1]	N/A	209,350	209,350	27,550	236,900	209,350	0	209,350
Georgia	236,900	50,650	287,550	236,900	0	236,900	236,900	(131,192)[2]	105,708	236,900	0	236,900
Maryland	202,500	85,050	287,550	202,500	6,850	209,350	202,500	34,400	236,900	202,500	N/A	202,500
New York	221,425	66,125	287,550	221,425	0	221,425	221,425	15,475	236,900	221,425	0	221,425
N. Carolina	253,308	12,057	265,365	253,308	0	253,308	253,308	12,057[3]	265,365	253,308	0	253,308
Pennsylvania	200,190	87,360	287,550	200,190	9,160	209,350	200,190	36,710	236,900	200,190	2,310	202,500
S. Carolina	233,400	55,550	288,950	233,400	0	233,400	233,400	5,000[4]	238,400	233,400	0	233,400
TOTAL			2,279,615			1,860,633			1,844,623			1,846,933

STATE OF DOMICILE

Operating in:	NEW YORK Total before retaliation	NEW YORK Retaliatory tax	NEW YORK Total	NORTH CAROLINA Total before retaliation	NORTH CAROLINA Retaliatory tax	NORTH CAROLINA Total	PENNSYLVANIA Total before retaliation	PENNSYLVANIA Retaliatory tax	PENNSYLVANIA Total	SOUTH CAROLINA Total before retaliation	SOUTH CAROLINA Retaliatory tax	SOUTH CAROLINA Total
Virginia	287,550	0	287,550	287,550	0	287,550	287,550	0	287,550	287,550	0	287,550
Florida	209,350	12,075	221,425	209,350	43,958	253,308	209,350	0	209,350	209,350	24,050	233,400
Georgia	236,900	0	236,900	236,900	16,408	253,308	236,900	0	236,900	236,900	0	236,900
Maryland	202,500	18,925	221,425	202,500	50,808	253,308	202,500	0	202,500	202,500	30,900	233,400
New York	221,425	(33,948)[5]	187,477	221,425	31,883	253,308	221,425	0	221,425	221,425	11,975	233,400
N. Carolina	253,308	0	253,308	253,308	N/A	253,308	253,308	0	253,308	253,308	0	253,308
Pennsylvania	200,190	21,235	221,425	200,190	53,118	253,308	200,190	N/A	200,190	200,190	33,210	233,400
S. Carolina	233,400	0	233,400	233,400	20,908[6]	254,308	233,400	0	233,400	233,400	N/A	233,400
TOTAL			1,862,910			2,061,706			1,844,623			1,944,758

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[1] FL provides a credit against gross premium tax for 15% of employee salaries. Assuming 50 employees with an average salary of $36,000, total salaries are $1.8 million. However, the employee salary credit cannot be taken because the credit cap is depleted by the credit for corporate income tax paid. The total of the corporate income and salary credits is capped at 65% of gross premium taxes due after deducting police and firemens excise taxes.

[2] GA domestic insurers may deduct any retaliatory tax paid to another state from premium tax liability.

[3] NC retaliatory tax calculation excludes licenses and fees; GA premium tax exceeds NC's retaliation base by $12,057.

[4] SC does not retaliate on agent's fees; SC's agent's fees exceed GA's, thus a larger total amount is due.

[5] NY provides domestic insurers a credit against their franchise tax liability of 90% of retaliatory taxes paid.

[6] SC does not retaliate on agent's fees; SC's agent's fees exceed NC's, thus a larger total amount is due.

APPENDIX J

HYPOTHETICAL VIRGINIA LIFE & HEALTH COMPANY
ESTIMATED ANNUAL TAXES & FEES IN SELECTED STATES

Tax or Fee	Virginia	Florida	Georgia	Maryland	New York	North Carolina	Pennsylvania	South Carolina
Premium Tax (net)	$135,000	$90,000	$135,000	$120,000	$57,675	$114,000	$120,000	$55,000
Corporate Income Tax	$0	$55,000	$0	$0	$0	$0	$0	$0
Franchise Tax	$0	$0	$0	$0	$81,000	$0	$0	$0
Municipality Tax	$0	$0	$0	$0	$0	$0	$0	$45,000
Fee to Support Ins. Dept.	$3,600	$0	$0	$0	$0	$8,265	$0	$0
Other Fund Fees	$0	$0	$0	$750	$0	$0	$0	$0
Agent Appointment Fees	$600	$3,000	$500	$1,250	$600	$1,000	$0	$2,000
License/Registration Fees	$850	$1,000	$500	$500	$0	$500	$40	$1,000
Filing Fees	$0	$1,250	$900	$0	$0	$100	$125	$0
Total Before Retaliation	$140,050	$150,250	$136,900	$122,500	$139,275	$123,865	$120,165	$103,000
Retaliatory Tax	$0	$0	$3,150	$17,550	$775	$21,000	$19,885	$38,450
Grand Total	**$140,050**	**$150,250**	**$140,050**	**$140,050**	**$140,050**	**$144,865**	**$140,050**	**$141,450**

COMPARISON OF INSURANCE TAXES AND FEES PAYABLE BY HYPOTHETICAL LIFE & HEALTH COMPANIES

STATE OF DOMICILE

	VIRGINIA			FLORIDA			GEORGIA			MARYLAND		
Operating in:	Total before retaliation	Retaliatory tax	Total	Total before retaliation	Retaliatory tax	Total	Total before retaliation	Retaliatory tax	Total	Total before retaliation	Retaliatory tax	Total
Virginia	140,050	N/A	140,050	140,050	10,200	150,250	140,050	0	140,050	140,050	0	140,050
Florida	150,250	0	150,250	110,000[3]	N/A	111,000	150,250	0	150,250	150,250	0	150,250
Georgia	136,900	3,150	140,050	136,900	13,350	150,250	136,900	(87,535)[5]	49,365	136,900	0	136,900
Maryland	122,500	17,550	140,050	122,500	27,750	150,250	122,500	14,400	136,900	122,500	N/A	122,500
New York	139,275	775	140,050	139,275	10,975	150,250	139,275	0	139,275	139,275	0	139,275
N. Carolina	123,865	21,000[1]	144,865	123,865	31,000[4]	154,865	123,865	21,000	144,865	123,865	6,000[7]	123,865
Pennsylvania	120,165	19,885	140,050	120,165	30,085	150,250	120,165	16,735	136,900	120,165	2,335	122,500
S. Carolina	103,000	38,450[2]	141,450	103,000	47,250	150,250	103,000	35,400[6]	138,400	103,000	20,250[8]	123,250
TOTAL			1,136,815			1,167,365			1,036,005			1,058,590

STATE OF DOMICILE

	NEW YORK			NORTH CAROLINA			PENNSYLVANIA			SOUTH CAROLINA		
Operating in:	Total before retaliation	Retaliatory tax	Total	Total before retaliation	Retaliatory tax	Total	Total before retaliation	Retaliatory tax	Total	Total before retaliation	Retaliatory tax	Total
Virginia	140,050	0	140,050	140,050	0	140,050	140,050	0	140,050	140,050	0	140,050
Florida	150,250	0	150,250	150,250	0	150,250	150,250	0	150,250	150,250	0	150,250
Georgia	136,900	2,375	139,275	136,900	0	136,900	136,900	0	136,900	136,900	0	136,900
Maryland	122,500	16,775	139,275	122,500	1,365	123,865	122,500	0	120,165	122,500	0	122,500
New York	139,275	(81,000)[9]	58,275	139,275	0	139,275	139,275	0	139,275	139,275	0	139,275
N. Carolina	123,865	24,675[10]	148,540	123,865	N/A	123,865	123,865	6,000[13]	129,865	123,865	0	123,865
Pennsylvania	120,165	19,110	139,275	120,165	3,700	123,865	120,165	N/A	120,165	120,165	0	120,165
S. Carolina	103,000	36,275[11]	139,275	103,000	21,865[12]	124,865	103,000	19,165[14]	122,165	103,000	N/A	103,000
TOTAL			1,054,215			1,062,935			1,058,835			1,036,005

1. NC retaliatory tax calculation excludes licenses and fees; VA's premium tax exceeds NC's retaliation base by $21,000.
2. SC does not retaliate on agent's fees; SC's agent's fees are $1,400 higher than in VA, thus a larger amount is due in SC.
3. Florida provides a credit against gross premium tax for 15% of employee salaries. Assuming 50 employees with an average salary of $36,000, total salaries are $1.8 million. The credits for salaries and for corporate income tax payments are capped at 65% of gross premium tax liability.
4. NC retaliatory tax calculation excludes licenses and fees; FL's premium tax exceeds NC's retaliation base by $31,000.
5. Georgia domestic insurers may deduct any retaliatory tax paid to another state from premium tax liability.
6. SC does not retaliate on agent's fees; SC's agent's fees are $1,500 higher than in GA, thus a larger amount is due in SC.
7. NC retaliatory tax calculation excludes licenses and fees; MD's premium tax exceeds NC's retaliation base by $6,000.
8. SC does not retaliate on agent's fees; SC's agent's fees are $750 higher than in MD, thus a larger amount is due in SC.
9. NY provides domestic insurers with a credit against their franchise tax liability of 90% of retaliatory taxes paid.
10. NC retaliatory tax calculation excludes licenses and fees; NY's premium tax exceeds NC's retaliation base by $24,675.
11. SC does not retaliate on agent's fees; SC's agent's fees are $1,400 higher than in NY, thus a larger amount is due in SC.
12. SC does not retaliate on agent's fees; SC's agent's fees are $1,000 higher than in NC, thus a larger amount is due in SC.
13. NC retaliatory tax calculation excludes licenses and fees; PA's premium tax exceeds NC's retaliation base by $6,000.
14. SC does not retaliate on agent's fees; SC's agent's fees are $2,000 higher than in PA, thus a larger amount is due in SC.

SUMMARY OF GUARANTY FUND TAX CREDIT ALLOWANCES

State	GF Credit Allowed	Method of Computation: L & H	Method of Computation: P & C	Other Comments
AL	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
AK	N			
AZ	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year the assessment was collected.
AR	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
CA	N			
CO	Y	20% per year for first 3 years; 7.5% for years four and five	N/A	Credit begins the year after the assessment is paid.
CT	Y	50% of assessment	N/A	Credit is only for the year of assessment.
DE	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
DC	Y	10% per year for 10 years	N/A	Credit begins the year after the assessment is paid.
FL	N			
GA	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
HI	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
ID	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
IL	Y*	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
		* Total of assessments must exceed $3 million, then credit is given on excess of $3 million		
IN	Y	20% per year for 5 years or may adjust rates to recoup assessment	20% per year for 5 years	Credit begins the year after the assessment is paid.
IA	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
KS	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
KY	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
LA	Y	20% per year for 5 years	10% per year until exhausted	L&H credit begins the year after the assessment is paid.
ME	N			
MD	N			
MA	Y	10% per year for 5 years	N/A	Credit begins the year after the assessment is paid. Total credits for all insurers may not exceed $3 million per year.
MI	Y	special formula	special formula	
MN	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid. If total assessments exceed tax revenues, a proportionate amount will be allowed.
MS	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
MO	Y	20% per year for 5 years	33.33% per year for 3 years	Credit begins the year after the assessment is paid.
MT	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
NE	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
NV	Y	20% per year for 5 years	20% per year for 5 years; for assmts. made after 1-1-93	Credit begins the year after the assessment is paid.
NH	N			
NJ	Y	10% per year for 5 years	N/A	Credit begins the second year after the assessment is paid. May not offset more than 20% of its liability in any one year.
NM	N			

SUMMARY OF GUARANTY FUND TAX CREDIT ALLOWANCES

State	GF Credit Allowed	Method of Computation L & H	Method of Computation P & C	Other Comments
NY	Y	special formula	N/A	Total assessments of all insurers must exceed $100 million in order for credits to be allowed.
NC	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
ND	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
OH	Y	20% per year for 5 years	N/A	Credit runs for each of the 5 years following the fiscal biennium in which the assessment is paid.
OK	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
OR	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
PA	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid. Only allowed for those policies whose rate is guaranteed.
RI	Y	10% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
SC	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
SD	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid. Total credits for all insurers cannot exceed $2 million.
TN	Y	Lesser of 10% per year for 10 years or at a rate of .10% of premiums	25% of premium tax due until all assessments have been offset	
TX	Y	10% per year for 10 years or 20% for 5 years	10% per year for 10 years or 20% for 5 years	Credit begins the year after the assessment is paid. Method of calculation depends on date of receivership.
UT	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year after the assessment is paid.
VT	Y	20% per year for 5 years	N/A	Credit begins the year after the assessment is paid.
WA	Y	20% per year for 5 years	20% per year for 5 years	Credit begins the year the assessment is paid. If assmt. or uncredited amount is less than $1,000 the entire amount can be taken as credit. Credits disallowed after 1-1-99
WV	N			
WI	Y	20% per year for 5 years if premium rates are fixed to assessments cannot be recouped. Foreign cos. allowed same credit as state of domicile allows.	20% per year for 5 years if premium rates are fixed to assessments cannot be recouped. Foreign cos. allowed same credit as state of domicile allows.	Credit begins the year after the assessment is paid.
WY	Y	10% per year for 10 years	N/A	Credit begins the year after the assessment is paid.

Analysis of Impact on General Fund Due to Change in Method of Guaranty Fund Tax Credits

	Current Method			10 Year Schedule			
Year	Life Credits	P&C Credits	Total Credits	L&H Credits	P&C Credits	Total Credits	General Fund Impact
1996	5,345,587	3,254,881	8,600,468	4,401,830	2,544,796	6,946,626	1,653,843
1997	4,791,359	2,349,233	7,140,592	4,401,830	2,544,796	6,946,626	193,967
1998	4,324,500	1,777,151	6,101,651	4,401,830	2,544,796	6,946,626	(844,974)
1999	3,766,185	1,431,442	5,197,627	4,401,830	2,544,796	6,946,626	(1,748,998)
2000	3,236,811	1,084,657	4,321,468	4,401,830	2,544,796	6,946,626	(2,625,157)
2001	2,585,800	817,433	3,403,233	4,401,830	2,544,796	6,946,626	(3,543,392)
2002	2,109,341	633,827	2,743,168	4,401,830	2,544,796	6,946,626	(4,203,457)
2003	1,719,778	564,332	2,284,110	2,610,570	1,361,062	3,971,632	(1,687,522)
2004	1,283,049	497,358	1,780,407	2,602,030	526,980	3,129,010	(1,348,603)
2005	1,077,664	409,608	1,487,272	1,612,355	114,987	1,727,341	(240,069)
Totals	30,240,074	12,819,922	43,059,996	37,037,762	19,816,599	57,454,361	(14,394,365)

	5 Year Schedule			
Year	L&H Credits	P&C Credits	Total Credits	General Fund Impact
1996	8,803,659	4,900,849	13,704,508	(5,104,040)
1997	8,803,659	4,900,849	13,704,508	(6,563,916)
1998	5,221,140	2,722,126	7,943,266	(1,841,614)
1999	5,204,060	1,053,960	6,258,020	(1,060,393)
2000	3,224,709	229,973	3,454,683	866,785
Totals	31,257,228	13,807,757	46,064,986	(13,703,178)

A BILL to amend and reenact § 58.1-2508 of the Code of Virginia and to repeal §§ 38.2-137 and 38.2-401.1 of the Code of Virginia, relating to the Flood Prevention and Protection Assistance Fund assessment.

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-2508 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-2508. Taxes applicable to insurance companies.

A. The real estate and tangible personal property, situated or located in the Commonwealth, of every such company and every fraternal benefit society transacting insurance in the Commonwealth shall be listed and assessed on the land and property books of the commissioner of the revenue in the same manner as other real estate and tangible personal property are assessed, and shall be taxed at the same rates as other like property is taxed.

B. The license tax provided in this chapter, the tax on real estate and tangible personal property provided for in subsection A, the fee assessed by the Commission for the administration of the insurance laws pursuant to § 38.2-400 et seq., the fee assessed by the Commission for the Fire Programs Fund pursuant to § 38.2-401, ~~the fee assessed by the Commission for the Flood Prevention and Protection Assistance Fund pursuant to § 38.2-401.1,~~ the fee assessed by the Commission to fund the program to reduce losses from motor vehicle thefts pursuant to § 38.2-414, and retaliatory amounts assessed by the Commission pursuant to § 38.2-1026 shall be in lieu of all fees, licenses, taxes and levies whatsoever, state, county, city or town; however, nothing in this section shall be construed to exempt insurance companies from the tax levied in Chapter 6 of this title. No additional fee or license tax shall be applicable to an agent of an insurance company other than the annual license fee on agents required pursuant to Article 3 (§ 38.2-1822 et seq.) of Chapter 18 of Title 38.2.

2. That §§ 38.2-137 and 38.2-401.1 of the Code of Virginia are repealed.