

INSURANCE PREMIUMS TAX
RCW 48.14.020 and .0201

Tax Base Net premiums collected or received by authorized insurers (except title insurers and fraternal benefit societies), health maintenance organizations, health care service contractors, and self-funded multiple employer welfare arrangements, after deduction of premiums that are returned to policyholders upon risks or property resident, situated or to be performed in this state. Ocean marine and foreign trade insurers are subject to tax on their net underwriting profit (net premiums received less net losses paid).

Tax Rate 2 percent - all taxable premiums except ocean marine and foreign trade.
0.95 percent - ocean marine and foreign trade.

Levied by State

Administration Office of the Insurance Commissioner. Insurance companies file tax returns by March 1 reporting premiums received during the previous calendar year. Insurers owing more than \$400 for a given calendar year must prepay their premium tax for the following year, as follows: 45 percent of the prior year's tax due by June 15; 25 percent due by September 15; and 25 percent due by December 15. Reconciliation and payment of the remaining tax is due when the tax return is filed on March 1.

Recent Collections (\$000)

<u>Fiscal Year</u>	<u>Collections</u>	<u>% Change</u>	<u>% of All State Taxes</u>
2006	\$378,804	6.0%	2.5%
2005	357,381	3.4	2.6
2004	345,614	9.1	2.7
2003	316,689	8.7	2.6
2002	291,250	4.1	2.5
2001	279,777	7.2	2.4
2000	260,949	9.2	2.2
1999	238,992	5.1	2.1
1998	227,304	7.3	2.0
1997	211,854	4.6	2.0

Distribution of Receipts

Premium taxes paid on fire insurance premiums are distributed as follows:

- 40 percent - volunteer fire fighters' relief and pension fund (RCW 41.24.030);
- 25 percent - cities with full-time fire departments (RCW 41.16.050);
- 20 percent - fire service training account (RCW 43.43.944);
- 15 percent - state general fund.

Premium taxes paid by health care organizations (RCW 48.14.0201):

- 100 percent - health services account.

All other premium taxes - state general fund.

The amounts distributed by fund for collections in Fiscal Year 2006 (\$000) were:

State general fund	\$238,319
Health services account	\$129,467
Volunteer firefighters' pensions	\$ 5,186
Cities with full-time fire depts.	\$ 3,241
Fire service training account	\$ 2,593

Exemptions, Deductions and Credits

- title insurers (subject to tax under service classification of B&O tax);
- pensions, annuities, and profit-sharing plans;
- premiums and prepayments for coverage under the state health insurance coverage access act (Chapter 48.41 RCW);
- premiums for medical/dental insurance of state employees prior to July 1, 1990;
- fraternal benefit societies;
- prepayments for health care services provided under Medicare, the state's basic health plan, or a managed care contract program under a pilot project;
- receipts by health care service contractors as prepayments for health care services included within the definition of dentistry (RCW 18.32.020);
- assessments for Washington State Health Insurance (RCWs 48.41 & 48.14.022(2));
- subsidized premiums received from Basic Health Plan (RCW 70.47.130);
- premiums from Federal Employees Health Benefit Act (5 USC Sec. 8901(f)(1));
- premiums for policies issued pursuant to the Federal Crop Insurance Act;
- assessments levied against insurance companies by the guaranty associations prior to April 1, 1993, and after July 27, 1997, to fund claims against insolvent companies may be credited against the tax with one-fifth of the assessment allowed as a credit annually for up to five years; and
- premiums for flood protection under the National Flood Insurance program.

History

The insurance premiums tax was the first state tax imposed in Washington. It was established in 1891, two years after statehood. The initial rate was the same rate that presently exists, 2 percent. In 1911 the retaliatory provision (see below) was adopted. In 1937 the rate was reduced to 1 percent for domestic companies and increased to 2.25 percent for foreign companies. The foreign rate again became 2 percent in 1949 and a lower rate of 0.75 percent for ocean marine insurance was established. In 1982 the three tax rates were increased by 0.16 percent, and a 4 percent surtax was applied. The foreign and domestic rates were merged into a single rate of 2 percent in 1986, with the ocean marine rate remaining at 0.95 percent.

In 1993 the Legislature eliminated a tax credit for assessments to guaranty associations which pay the claims of policyholders of companies that become insolvent. However, the tax credit was reenacted in 1997.

Legislation in 1993 shifted health care companies (health maintenance organizations and health care service contractors) from the B&O tax to the insurance premiums tax, by imposing the 2 percent premiums tax on their premiums and prepayments, effective January 1, 1994, with the revenues devoted to the health services account. As of January 1, 2000, no local government jurisdiction may impose a similar tax on the premiums of HMOs or HCSCs.

Discussion/Major Issues

The insurance premiums tax is in lieu of business and occupation tax, as well as all other taxes except real and personal property taxes and excise taxes applied thereon (RCW 48.14.080). Also, RCW 82.04.320 reaffirms the exemption of insurance premiums from B&O tax. It should be noted, however, that insurance companies do pay B&O tax on income derived from any other activities in which they engage.

Washington insurance law contains a retaliatory provision (RCW 48.14.040) which provides for higher tax rates on foreign and alien companies (those headquartered in another state or country) if those states or countries charge a higher tax rate on Washington-based insurance companies doing business in their jurisdictions.