GROSS PREMIUM TAX
CORPORATE FRANSHIE TAX
Reduce Gross Premium Tax to 1.75%

March 26, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2042 (Abrams) / S.F. 1949 (Rest)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
		(000's)		
Gross Premium Tax	($15,200)	($15,700)	($16,200)	($16,800)
Corporate Franchise Tax	400	900	1,000	1,100
General Fund Total	($14,800)	($14,800)	($15,200)	($15,700)

Effective for premiums received after June 30, 2001.

EXPLANATION OF THE BILL

Current Law: In general, insurance premiums are subject to a 2% tax. Insurance companies are subject to one of two taxing regimes, retaliatory or retaliatory/ reciprocal. Under the retaliatory taxation regime, an insurance company pays the greater of the tax based on its home state law or the tax based on Minnesota law.

Insurance companies domiciled in Minnesota, Hawaii, Massachusetts, New York, and Rhode Island are subject to the retaliatory / reciprocal regime, and only Minnesota law determines their tax liability. Minnesota law grants an exception to the 2% tax rate for certain mainly Minnesota mutual property and casualty companies who are subject to a 1% or 1.26% tax rate.

Only companies subject the retaliatory / reciprocal tax regime are subject to the corporate franchise tax, and companies subject the retaliatory tax regime are exempt from the corporate franchise tax. A credit is allowed against the corporate franchise tax for the Minnesota gross premium taxes paid.

Beginning in calendar year 2003, HMO's and nonprofit health service plans will again be subject to a 1% premiums tax.

Proposed Law: The bill reduces the gross premium tax rate to 1.75%. Other companies that are subject to the tax rates below 1.75% would pay the same rate as under current law such as the 1% rate paid by HMO's and the nonprofits. The reduction in the premium tax would reduce the size of the gross premium tax credit that is taken by companies who are subject to the corporate franchise tax.

REVENUE ANALYSIS DETAIL

Gross Premium Tax

- The revenue estimate is based on data from returns received in calendar year 1999.
- Summaries of selected data fields by state of domicile and type of insurance company were used to compute the effect of the proposal. The insurance premiums sold by each type of insurance company were separated into two categories, health insurance and insurance other than health insurance.
- The estimated premium tax from health insurance uses premium data reported on form M-11, the gross premium tax return. Total taxes multiplied by the proportion accident and health premiums divided by the total gross premiums equals the premiums tax from health insurance.
- Due to the retaliatory taxation regime, a reduction in the Minnesota tax rate may not change a company's tax from the amount paid under current law. The revenue estimate is adjusted to account for the effect of retaliatory taxation regime.
- There is no revenue loss for the mainly Minnesota domiciled companies who are subject to the 1.26% or 1% rate.
- The retaliatory taxation calculation is based on the sum of total taxes, licenses and fees computed under a retaliatory state's law that exceed the sum of total taxes, licenses and fees computed under Minnesota law.
- Growth in overall premium tax collections as projected by the Department of Finance in the February 2001 forecast were used to project future revenue losses.

Corporate Franchise Tax

- The revenue estimate is based on data from returns received in calendar year 1998.
- A reduction in the gross premium tax causes taxpayers to claim a smaller gross premium tax credit. A program was run against the data to calculate the revenue change from a smaller gross premium tax credit.
- The estimate assumes that filed 1998 data represents collections in fiscal year 1998.
- Growth in overall corporate tax collections as projected by the Department of Finance in the February 2001 forecast were used to project future revenue losses.

Number of Taxpayer Affected:

Gross Premium Tax
The proposal reduces the gross premium tax for an estimated 800 taxpayers.

Corporate Franchise Tax
The proposal reduces the gross premium tax credit claimed by about 100 taxpayers.

Table 1. Allocation of Bill's Fiscal year 2003 Effect by Tax and Type of Company

Type of Company Domestic	***Type of Insurance*** Accident & Health	Other Insurance	Total Effect on Gross Premium Tax Revenues	Corporate Income Tax Effect on Premium Tax Credit	Net Effect of Proposal
Life	-$500,000	-$1,800,000	-$2,300,000	$400,000	-$1,900,000
Property-casualty	-$500,000	-$2,100,000	-$2,600,000	$500,000	-$2,100,000
Total Domestic Cos.	-$1,000,000	-$3,900,000	-$4,900,000	$900,000	-$4,000,000
Type of Company Foreign	***Type of Insurance*** Accident & Health	Other Insurance	Total Effect on Gross Premium Tax Revenues	Corporate Income Tax Effect on Premium Tax Credit	Net Effect of Proposal
Life	-$1,000,000	-$2,100,000	-$3,100,000	$0	-$3,100,000
Property-casualty	-$200,000	-$7,500,000	-$7,700,000	$0	-$7,700,000
Total Foreign Cos.	-$1,200,000	-$9,600,000	-$10,800,000	$0	-$10,800,000
Column Total	-$2,200,000	-$13,500,000	-$15,700,000	$900,000	-$14,800,000

Note: Companies designated as "domestic" in the table include those domiciled in Hawaii, Massachusetts, New York, and Rhode Island, in addition to Minnesota.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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