

MINNESOTA • REVENUE

GROSS PREMIUM TAX

Reduce Rate to 1.5%
for Life Insurance Premiums

March 16, 2004

Department of Revenue
Analysis of S.F. 2406 (Moua) / H.F. 2501 (Abrams)

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

	Revenue Gain or (Loss)			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund Total	0	(\$7,200)	(\$8,400)	(\$8,800)

Effective for premiums received after June 30, 2004

EXPLANATION OF THE BILL

Current Law: Life insurance premiums are subject to a 2% gross premium tax.

Proposed Law: Life insurance premiums would be subject to a 1.5% gross premium tax. Due to retaliatory taxation, not all life insurance premiums would be subject to the 1.5% gross premium tax rate. Under retaliatory taxation, an insurance company pays the higher of the Minnesota tax rate or the tax rate in the company's domicile state.

REVENUE ANALYSIS DETAIL

- Tax year 2002 Data from the Special Taxes Division of the Minnesota Department of Revenue was used to make the estimate.
- The effect of retaliatory taxation was computed using the tax rates in effect during calendar year 2003. Retaliatory taxation reduces the revenue loss from this bill about \$5 million per year. If tax rates in retaliatory states were reduced to 1.5%, the revenue loss from this bill would increase \$5 million per year beyond those projected for this bill.
- The revenue loss associated with tax year 2002 is projected to grow by the rate of growth in insurance premium tax collections that were projected in the February 2004 Department of Finance forecast.
- Since the rate reduction occurs in the middle of tax year 2004, the revenue loss in fiscal year 2005 was adjusted to reflect the effective date.

Number of Taxpayers: About 400 taxpayers per year.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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