GROSS PREMIUM TAX
Reduce Rate to 1.5%
for Mutual Life Companies

March 31, 2004

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

Department of Revenue
Analysis of H.F. 2501 (Abrams) Delete Everything Amendment (2501DE1)

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
	(000's)			
General Fund Total	0	($1,100)	($1,300)	($1,300)

Effective for premiums received after June 30, 2004.

EXPLANATION OF THE BILL

Current Law: Premiums earned by life insurance companies are subject to a 2% gross premium tax.

Proposed Law: Life insurance premiums earned by companies defined as mutual life insurance companies would be subject to a 1.5% gross premium tax. The tax rate on premiums for other than life insurance would remain at 2% for those companies.

As defined, mutual life insurance companies include any stock life insurance company that is directly or indirectly owned by a mutual insurer or a mutual insurance holding company. Also, the mutual life insurance company must have assets less than $20 billion on December 31, 2003, or have less than $20 billion in assets at the end of the prior calendar year.

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 $10,000 per year. If tax rates in retaliatory states were reduced to 1.5%, the revenue loss from this bill would increase $10,000 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 34 taxpayers per year.

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

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