

MINNESOTA • REVENUE

GROSS PREMIUM TAX

Reduce Rate to 1.5%
for Life Insurance Premiums

March 23, 2005

Department of Revenue
Analysis of H.F. 44 (Abrams) / S.F. 401 (Moua)

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

Revenue Gain or (Loss)

	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund Total	(\$7,500)	(\$8,400)	(\$8,700)	(\$9,000)

Effective for premiums received after June 30, 2005.

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 2003 data from returns filed in 2004 was used to make the estimate. The reduction in tax was calculated on a per-firm basis.
- The revenue loss associated with tax year 2003 is projected to grow by the projected rate of growth in insurance premium tax collections that was published in the February 2005 Department of Finance forecast.
- The effect of retaliatory taxation was computed using the tax rates in effect during calendar year 2004. Retaliatory taxation reduces the revenue loss from this bill about \$6 million per year. This analysis assumes that other states will keep their present rates at the same level as under current law. If tax rates in retaliatory states were reduced to match the proposed 1.5% rate, the revenue loss from this bill would increase by about \$6 million per year.
- Tax year impacts were converted to fiscal years. Due to the July 1, 2005, effective date, the FY 2006 estimate reflects the bill's partial effect on premiums received during tax year 2005.

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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