Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 35** DATE: **March 20, 2007**

STATUS: **As Introduced** SPONSOR: **Rep. Wolpert**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Would decrease from 5% to 1.4% the foreign insurers' tax rate**

State Fiscal Highlights

STATE FUND	FY 2007	FY 2008	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	$21 million loss	$21 million loss
Expenditures	- 0 -	- 0 -	- 0 -
Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The decrease in tax rate would reduce revenues from the tax. The amount of revenue loss would depend on market conditions, but Department of Insurance officials estimate the loss to be approximately $21 million per year.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Under current law, companies located in Ohio that purchase insurance on risks located within Ohio from insurers not authorized to do business in this state are assessed a tax on the premiums they paid of 5% of the gross premium. H.B. 35 would reduce the tax rate in such cases from 5% of gross premiums to 1.4%.

Background

Companies that are authorized to do business in Ohio pay a tax on gross premiums that they receive. Such companies may be headquartered in Ohio, in which case they are referred to as "domestic" insurance companies, or they may be headquartered in other states, in which case they are referred to as "foreign" insurance companies. Both domestic and foreign insurance companies that are authorized to do business in Ohio pay a tax on gross premiums at a rate of 1.4%.[1] Thus under current law, the tax rate imposed on premiums paid to insurers authorized to do business in Ohio is less than the rate paid by companies that purchase insurance from insurers not authorized to do business in Ohio.

Am. Sub. H.B. 66 of the 126th General Assembly, the main operating budget bill, made changes to the tax base being changed by H.B. 35. H.B. 66 removed an exemption that had been in place for certain "employer insureds" and added an exemption for captive insurers. The net effect of those changes has been to expand the tax base, although it may be that future responses in the market, i.e., new formations of captive insurers, could change the net effect. Am. Sub. H.B. 699 of the 126th General Assembly also made changes to the tax base, exempting certain professional or medical liability insurance and certain insurance covering risks related to environmental remediation.

Fiscal effect

The reduction in tax rate would reduce revenue from the tax, with the exact amount of revenue loss depending on market conditions. Department of Insurance officials estimate that the revenue loss would be approximately $21 million per year. The full revenue loss would be to the GRF.

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[1] For premiums received by health insuring corporations, the tax rate is 1.0%.