

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: SB 1220

SPONSOR: Senator Holzendorf

SUBJECT: Insurance (Minority-Owned Insurer)

DATE: April 20, 2001

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Deffenbaugh</u>	<u>Deffenbaugh</u>	<u>BI</u>	<u>Fav/1 amendment</u>
2.	<u>Keating</u>	<u>Johansen</u>	<u>FT</u>	<u>Favorable</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

## I. Summary:

In 1998, the Legislature created an exemption from state insurance premium taxes, municipal premium taxes, and regular assessments (but not emergency assessments) of the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association for residential property insurance policies issued by newly formed, minority-owned property and casualty insurers. Insurers qualifying under this section are eligible for exemptions for up to 5 years from the date of receiving a certificate of authority. All exemptions under this section terminate on July 1, 2003. Currently, only one insurer qualifies for this exemption.

The bill would extend the maximum time period for the exemption from 5 years to 10 years from the date an insurer's certificate of authority is issued. All exemptions would terminate July 1, 2010, rather than July 1, 2003.

Amendment #1 by Banking and Insurance provides for repeal of the tax and assessment exemption on December 31, 2010, rather than July 1, 2010. This avoids the problem of repealing the exemption in the middle of the tax year.

This bill substantially amends section 627.4072 of the Florida Statutes.

## II. Present Situation:

### Premium Taxes and Excise Taxes

The gross premiums collected by insurers on property insurance policies are subject to a state premium tax of 1.75 percent, subject to various credits (s. 624.509, F.S.). In addition, cities and special fire control districts may levy an excise tax of 1.85 percent on the gross premiums on

property insurance policies covering property within their boundaries to fund firefighter pension plans (s. 175.101, F.S.). Each city may also impose a 0.85 percent tax on the property insurance portion of the premium for casualty insurance policies, to fund police officers pension plans (s. 185.08).

### **Assessments by the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association**

When premium revenues and other resources are insufficient to pay claims, the Residential Property and Casualty Joint Underwriting Association and Florida Windstorm Underwriting Association boards have the authority to levy assessments against property insurers, in proportion to their statewide market share. *Regular assessments* may be made against property insurers, generally limited to 10 percent of the insurer's property insurance premium. If the deficit exceeds the maximum regular assessment, *emergency assessments* may be imposed on all new and renewal property insurance policies in the state, subject to certain limitations. (s. 627.351(2) and (6), F.S.)

### **Exemption for Certain Minority-Owned Insurers**

In 1998, the Legislature created an exemption from the state insurance premium tax, the municipal police and fire premium taxes, and regular assessments (but not emergency assessments) of the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association for residential insurance policies issued by newly-formed, minority-owned property and casualty insurers. Insurers qualifying under this section are eligible for an exemption not to exceed 5 years from the date of receiving a certificate of authority. All exemptions under this section terminate on July 1, 2003.

In order to qualify for the exemptions, the insurer must be 51 percent owned by minority persons, as defined in s. 288.703(3), F.S., and would be required to have:

- received its initial certificate of authority to do business in Florida after May 1, 1998;
- a home office or regional office in Florida;
- employees in Florida; and
- an average, in any given tax year or assessment year, of at least 10 percent of its in-force Florida residential policies in enterprise zones designated under s. 290.0065, F.S.

According to the Department of Insurance, only one insurer, which received its certificate of authority on January 29, 1999, has qualified for the exemption.

### **III. Effect of Proposed Changes:**

The bill would extend the maximum time period from 5 years to 10 years, from the date an insurer's certificate of authority is issued, for the exemption from state and local premium taxes and regular assessments from the RPCJUA and the FWUA for minority-owned property and casualty insurers. Such exemptions from taxes and assessments would terminate effective July 1,

2010, rather than July 1, 2003. Otherwise, the same criteria for the exemption, summarized in Present Situation above, would still be required.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

##### **B. Public Records/Open Meetings Issues:**

None.

##### **C. Trust Funds Restrictions:**

None.

#### **V. Economic Impact and Fiscal Note:**

##### **A. Tax/Fee Issues:**

The bill extends the time period for a current tax exemption for minority-owned insurers meeting certain criteria.

The full impact of the bill depends both on the number of eligible minority-owned insurers that might be formed between the time the exemptions take effect and July 1, 2010, when they expire, and on the premium volume of residential property insurance policies written by these companies.

The Revenue Estimating Conference estimated the fiscal impact on the amount of premium tax collected for fiscal years 2001-2002 and 2002-2003 to be a negative \$100,000, based on the premium volume of the one company currently qualifying for the exemption. There should be no additional fiscal impact between the effective date of this bill and July 1, 2003, the date of the current cut-off. But, after that date the fiscal impact would be similar to the current fiscal impact, but potentially greater.

##### **B. Private Sector Impact:**

The one insurer currently entitled to the premium tax and assessment exemption would continue the exemption from July 1, 2003, until July 1, 2010, if the required criteria continue to be met. Other newly formed minority-owned insurers could also qualify for the exemptions.

The exemption from regular assessments levied by the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association could negatively impact other insurer by increasing their share of assessments, but this impact is likely to be minimal.

**C. Government Sector Impact:**

Beginning in fiscal year 2003-2004, the amount of local police and fire premium taxes collected and deposited in the Firefighters' Pension Trust Fund and the Municipal Police Officers' Retirement Trust Fund would be decreased as a result of extension of the time period for the current exemption for minority-owned insurers. The extent of the decrease in revenues is not known, but should be similar to the impact on state revenues.

**VI. Technical Deficiencies:**

Both the current law and the bill have July 1 repeal dates, which is in the middle of the tax year. For administrative simplicity and legal clarity, it would be preferable to have a December 31 repeal date so that all premiums received during the year would be subject to the same law and either be taxed or not.

**VII. Related Issues:**

None.

**VIII. Amendments:**

#1 by Banking and Insurance:

Provides for repeal of the tax and assessment exemption on December 31, 2010, rather than July 1, 2010. This avoids the problem addressed in Technical Deficiencies, above, of repealing the exemption in the middle of the tax year.