

STORAGE NAME: h0457.in.doc
DATE: March 26, 2001

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
INSURANCE
ANALYSIS**

BILL #: HB 457
RELATING TO: Property and casualty insurers
SPONSOR(S): Representative(s) Lee
TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) INSURANCE
 - (2) ECONOMIC DEVELOPMENT & INTERNATIONAL TRADE
 - (3) FISCAL POLICY & RESOURCES
 - (4) COMPETITIVE COMMERCE
 - (5)
-

I. SUMMARY:

In 1998, the Legislature created an exemption from insurance premium taxes, excise taxes on property and casualty insurance premiums, 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.

HB 457 would extend by up to 5 years the tax and assessment exemption available to minority-owned property and casualty insurers. Therefore, the exemption would be for a period not to exceed 10 years. All exemptions from taxes and assessments would terminate effective July 1, 2010, rather than July 1, 2003.

This bill could have a negative fiscal impact. See Fiscal Comments (Section III.D) of this analysis.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|---------------------------|---|--|---|
| 1. <u>Less Government</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input checked="" type="checkbox"/> | No <input checked="" type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

HB 457 would exempt certain minority-owned property insurers from premium taxes and excise taxes. Although only one insurer currently qualifies for this exemption, a shortfall created by this exemption could be shifted to other insurers.

- | | | | |
|-----------------------------------|------------------------------|-----------------------------|---|
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

B. PRESENT SITUATION:

Premium Taxes and Excise Taxes

The gross premiums collected by insurers on property insurance policies are subject to a premium tax of 1.75 percent and an excise tax of 1.85 percent. Additionally the gross premiums collected by insurers for casualty insurance on properties are subject to a 0.85 percent excise tax.

Regular 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 market share. Generally, the assessments must be enough to recoup in one year the entire amount of the deficit.

Assessment and Tax Exemptions

In 1998, the Legislature created an exemption from insurance premium taxes, excise taxes on property and casualty insurance premiums, 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 has to be 51 percent owned by minority persons, as defined in s. 288.703(3), F.S.¹, and would be required to have:

- received its initial certificate of authority to do business in Florida after May 1, 1998;

¹ As defined in this section, "minority person" includes African Americans, Hispanic Americans, Asian Americans, Native Americans, and American women.

- 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.

C. EFFECT OF PROPOSED CHANGES:

HB 457 would extend the exemption from premium taxes, excise taxes, and assessments from the RPCJUA and the FWUA for minority-owned property and casualty insurers for ten years from the date the certificate of authority was issued. All exemptions from taxes and assessments would terminate effective July 1, 2010, rather than July 1, 2003.

D. SECTION-BY-SECTION ANALYSIS:

This section need be completed only in the discretion of the Committee.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

This bill would not have an additional fiscal impact through fiscal year 2002-2003. The impact of this bill would begin in fiscal year 2003-2004. See Fiscal Comments (Section III.D.) of this analysis.

2. Expenditures:

None

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Certain minority-owned insurers could qualify for exemptions from excise taxes, premium taxes, and RPCJUA and FWUA assessments under this bill. This could create more of a burden on other insurers for regular assessments levied by the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association.

D. FISCAL COMMENTS:

Since the bill extends the tax exemptions for residential property insurance policies issued by newly-formed, minority-owned insurance companies, the impact of this provision would depend 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 \$100,000,² based on the premium volume of the one company currently qualifying for the exemption. Because the bill would extend the current exemption from July 1, 2003 to July 1, 2010, between the effective date of this bill and July 1, 2003, there should be no additional fiscal impact. Between July 1, 2003 and July 1, 2010, however, it could be presumed that the fiscal impact would be similar to the current fiscal impact.

This bill also would have a negative fiscal impact beginning in fiscal year 2003-2004 on the amount of excise taxes collected and deposited in the Firefighters' Pension Trust Fund and the Municipal Police Officers' Retirement Trust Fund. The current impact of the one company currently qualifying for the exemption would be extended for an additional 5 years. Other insurance companies could qualify for the exemption and be exemption from excise taxes.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

² Follow up with the Office of Economic and Demographic Research indicates this estimated impact may be based on an incorrect reading of the date of repeal of the current law.

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C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON INSURANCE:

Prepared by:

Staff Director:

Meredith Woodrum Snowden

Stephen Hogge