

**CHAPTER 1158****TAXATION OF INSURANCE PREMIUMS, ASSESSMENTS, AND FEES  
AND HEALTH SERVICE CORPORATION SUBSCRIBER CONTRACT PAYMENTS***S.F. 2318*

**AN ACT** relating to the tax on premiums and subscriber contract payments received by insurance companies and health service corporations by phasing in a reduction in the tax and increasing the prepayment of the tax, providing for a study, and including an effective date.

*Be It Enacted by the General Assembly of the State of Iowa:*

Section 1. Section 135.120, Code 2001, is amended to read as follows:  
135.120 TAXATION OF ORGANIZED DELIVERY SYSTEMS.

Payments received by an organized delivery system licensed by the director for health care services, insurance, indemnity, or other benefits to which an enrollee is entitled through an organized delivery system authorized under 1993 Iowa Acts, chapter 158, and payments by an organized delivery system licensed by the director to providers for health care services, to insurers, or corporations authorized under chapter 514 for insurance, indemnity, or other service benefits authorized under 1993 Iowa Acts, chapter 158, are not premiums received and taxable under the provisions of section 432.1 for the first five years of the existence of the organized delivery system, its successors or assigns, or the first five years after July 1, 1996, whichever is the later. After the first five years, the payments received shall be considered premiums received and shall be taxable under the provisions of section 432.1, subsection 1. However, payments made by the United States secretary of health and human services under contracts issued under section 1833 or 1876 of the federal Social Security Act, section 4015 of the federal Omnibus Budget Reconciliation Act of 1987, or chapter 249A for enrolled members shall not be considered premiums received and shall not be taxable under section 432.1.

Sec. 2. Section 432.1, subsection 1, paragraph a, Code 2001, is amended to read as follows:

a. ~~Two percent~~ The applicable percent, as provided in subsection 1A, of the gross amount of premiums received during the preceding calendar year by every life insurance company or association, not including fraternal beneficiary associations, or the gross payments or deposits collected from holders of fraternal beneficiary association certificates, on contracts of insurance covering risks resident in this state during the preceding year, including contracts for group insurance and annuities and without including or deducting any amounts received or paid for reinsurance.

Sec. 3. Section 432.1, Code 2001, is amended by adding the following new subsection:

NEW SUBSECTION. 1A. The "applicable percent" for purposes of subsection 1 of this section and section 432.2 is the following:

- a. For calendar years beginning before the 2003 calendar year, two percent.
- b. For the 2003 calendar year, one and three-fourths percent.
- c. For the 2004 calendar year, one and one-half percent.
- d. For the 2005 calendar year, one and one-fourth percent.
- e. For the 2006 and subsequent calendar years, one percent.

Sec. 4. Section 432.1, subsection 2, Code 2001, is amended to read as follows:

2. ~~Two percent~~ The applicable percent, as provided in subsection 2A, of the gross amount of premiums, assessments, and fees received during the preceding calendar year by every company or association other than life on contracts of insurance other than life for business done in this state, including all insurance upon property situated in this state, after deducting the amounts returned upon canceled policies, certificates and rejected applications but not

including the gross premiums, assessments and fees in connection with ocean marine insurance authorized in section 515.48.

Sec. 5. Section 432.1, Code 2001, is amended by adding the following new subsection:  
NEW SUBSECTION. 2A. The “applicable percent” for purposes of subsection 2 is the following:

- a. For calendar years beginning before the 2004 calendar year, two percent.
- b. For the 2004 calendar year, one and three-fourths percent.
- c. For the 2005 calendar year, one and one-half percent.
- d. For the 2006 calendar year, one and one-fourth percent.
- e. For the 2007 and subsequent calendar years, one percent.

Sec. 6. Section 432.1, subsection 4, Code 2001, is amended to read as follows:

4. a. Each insurance company and association transacting business in this state whose Iowa premium tax liability for the preceding calendar year was one thousand dollars or more shall remit on or before June 1, on a prepayment basis, an amount equal to one-half of the premium tax liability for the preceding calendar year.

b. In addition to the prepayment amount in paragraph “a”, each life insurance company or association which is subject to tax under subsection 1 of this section and each mutual health service corporation which is subject to tax under section 432.2 shall remit on or before June 30, on a prepayment basis, an additional amount equal to the following percent of the premium tax liability for the preceding calendar year as follows:

- (1) For prepayment in the 2003 calendar year, four percent.
- (2) For prepayment in the 2004 calendar year, twenty-one percent.
- (3) For prepayment in the 2005 and subsequent calendar years, fifty percent.

c. In addition to the prepayment amount in paragraph “a”, each insurance company or association, other than a life insurance company or association, which is subject to tax under subsection 2 shall remit on or before June 30, on a prepayment basis, an additional amount equal to the following percent of the premium tax liability for the preceding calendar year as follows:

- (1) For prepayment in the 2003 and 2004 calendar years, eleven percent.
- (2) For prepayment in the 2005 calendar year, twenty-six percent.
- (3) For prepayment in the 2006 and subsequent calendar years, fifty percent.

d. The sums prepaid by a company or association under this subsection shall be allowed as credits against its premium tax liability for the calendar year during which the payments are made. If a prepayment made under this subsection exceeds the annual premium tax liability, the excess shall be allowed as a credit against subsequent prepayment or tax liabilities. The commissioner may suspend or revoke the license of a company or association that fails to make a prepayment on or before the due date.

Sec. 7. Section 432.2, Code 2001, is amended to read as follows:

432.2 MUTUAL SERVICE CORPORATIONS.

Notwithstanding section 432.1, a hospital service corporation, medical service corporation, pharmaceutical service corporation, optometric service corporation and any other service corporation operating under chapter 514 shall pay as taxes to the director of revenue and finance an amount equal to ~~two percent~~ the applicable percent, as provided in section 432.1, subsection 1A, of the gross amount of payments received during the preceding calendar year for subscriber contracts covering residents in this state after deducting the amounts returned to subscribers upon canceled subscriber contracts and rejected applications. Section 432.1, subsections 3 and 4, apply to the tax imposed by this section.

Sec. 8. Section 514B.31, Code 2001, is amended to read as follows:

514B.31 TAXATION.

Payments received by a health maintenance organization for health care services, insurance, indemnity, or other benefits to which an enrollee is entitled through a health mainte-

nance organization authorized under this chapter and payments by a health maintenance organization to providers for health care services, to insurers, or corporations authorized under chapter 514 for insurance, indemnity, or other service benefits authorized under this chapter are not premiums received and taxable under the provisions of section 432.1 for the first five years of the existence of the health maintenance organization, its successors or assigns. After the first five years, the payments received shall be considered premiums received and shall be taxable under the provisions of section 432.1, subsection 1. However, payments made by the United States secretary of health and human services under contracts issued under section 1833 or 1876 of the federal Social Security Act, section 4015 of the federal Omnibus Budget Reconciliation Act of 1987, or chapter 249A for enrolled members shall not be considered premiums received and shall not be taxable under section 432.1.

Sec. 9. GAAP. The department of revenue and finance and the office of the auditor of state are directed to study the impact this Act may have on the balance of the general fund of the state according to generally accepted accounting principles, especially the impact on the 2005-2006 fiscal year. The report shall contain the data used and recommendations made. The report shall be submitted to the legislative council and its fiscal committee by August 15, 2002.

Sec. 10. EFFECTIVE DATE. Section 9 of this Act, being deemed of immediate importance, takes effect upon enactment.

Approved May 9, 2002

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## CHAPTER 1159

### SCHOOL FINANCE — ALLOWABLE GROWTH

S.F. 2328

**AN ACT** providing for the establishment of the state percent of growth for purposes of the state school foundation program and providing an applicability date.

*Be It Enacted by the General Assembly of the State of Iowa:*

Section 1. Section 257.8, subsection 1, Code Supplement 2001, as amended by 2002 Iowa Acts, Senate File 2315,<sup>1</sup> section 1, is amended to read as follows:

1. STATE PERCENT OF GROWTH. ~~The state percent of growth for the budget year beginning July 1, 2001, is four percent.~~ The state percent of growth for the budget year beginning July 1, 2002, is one percent. The state percent of growth for the budget year beginning July 1, 2003, is two percent. The state percent of growth for each subsequent budget year shall be established by statute which shall be enacted within thirty days of the submission in the year preceding the base year of the governor's budget under section 8.21. The establishment of the state percent of growth for a budget year shall be the only subject matter of the bill which enacts the state percent of growth for a budget year.

Sec. 2. APPLICABILITY. This Act is applicable for computing state aid under the state school foundation program for the school budget year beginning July 1, 2003.

Approved May 9, 2002

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<sup>1</sup> Chapter 1167 herein