

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 749 - Insurance Omnibus (LSB 1155 HV)

Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version - New

Description

House File 749, Section 2, allows the Insurance Commissioner to approve refunds of insurance premium taxes in certain instances. Section 2 is effective July 1, 2005.

Background

Current Iowa law taxes insurance policy premiums on a calendar year basis, with pre-payments due in June and August of the calendar year, and the final reconciliation payment due in March of the next calendar year. If the pre-payments exceed the amount the company owes in that calendar year, the excess is allowed as a credit against payments due in the next year. In most instances, the credit is redeemed when the first pre-payment for the next calendar year is due (three months later).

If a company no longer issues policies in Iowa, the company may not have future tax liability to offset the credits. In the past, the State Appeals Board has refunded some overpayments. However, no overpayments have been refunded since April 2004, as the Appeals Board determined the Code of Iowa does not specifically authorize the issuance of refunds.

The latest report available shows that through April 2004 the Appeals Board held or denied over \$327,000 in over-payment claims from companies no longer doing business or approved to do business in Iowa. Of that amount, companies no longer licensed in Iowa have claimed \$181,000, and companies still licensed but no longer writing policies have claimed \$146,000. Those numbers would not include similarly situated companies that never filed claims with the State Appeals Board.

Iowa's current insurance premium tax is in the process of a phase-down from 2.0% to 1.0%, and the pre-payments are increasing so that the combination of the June and August pre-payments will equal 100.0% of the previous calendar year tax liability. This will lead to very little, if any tax due during the March final payment period, and an increase in the number of companies with credits to use the next year. Prior to the tax rate and pre-payment changes, only a 50.0% pre-payment was required prior to the final payment, so instances of over-payment were rare.

Assumptions

1. The Appeals Board will not reverse its decision and start issuing insurance tax refunds.
2. The current Revenue Estimating Conference estimate and the standing appropriation to the Appeals Board do not assume payment of any insurance premium tax refunds during FY 2006.
3. All companies that have filed claims with the Appeals Board will request refunds through the Insurance Commissioner.
4. Additional companies without current claims but with similar circumstances will file claims with the Insurance Commissioner.
5. During FY 2006, the Insurance Commissioner will approve refunds for all companies no longer licensed to do business in Iowa, and the Commissioner will not approve claims for companies with credits, but still doing business in Iowa.

6. Companies still licensed to do business, but no longer writing policies, will receive refunds in FY 2007.

Fiscal Impact

Section 2 of HF 749 will decrease net General Fund receipts by at least \$181,000 in FY 2006. There is an additional \$146,000 in potential refunds currently available to companies not currently writing policies in Iowa, but still licensed to do so.

Further, providing authority to the Insurance Commissioner to approve cash refunds will reduce net General Fund receipts in future fiscal years, as current law does not provide for any refund option.

Source

Insurance Division and Appeals Board Records

/s/ Holly M. Lyons

April 6, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
