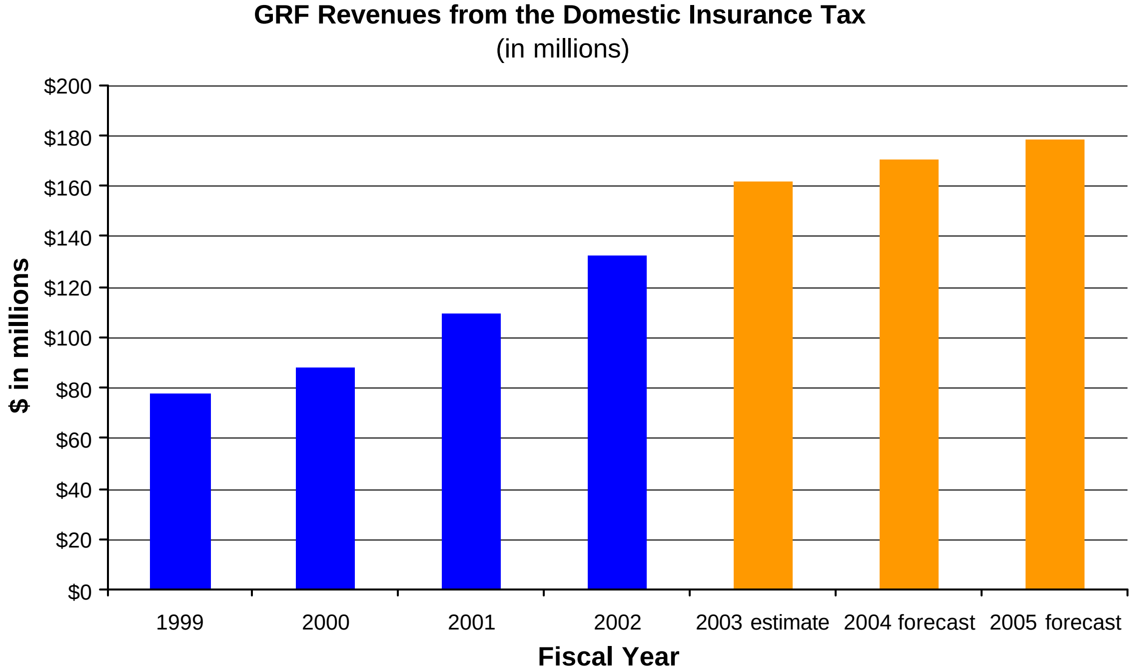
# *Domestic Insurance Tax*




| | FY 1999 Actual | FY 2000 Actual | FY 2001 Actual | FY 2002 Actual | FY 2003 Estimate | FY 2004 Forecast | FY 2005 Forecast |
|---|---|---|---|---|---|---|---|
| Domestic Insurance | $77.5 | $88.2 | $109.3 | $132.4 | $161.6 | $170.7 | $178.3 |
| growth | 22.7% | 13.7% | 24.0% | 21.2% | 22.0% | 5.6% | 4.5% |

The new tax structure created in Am. Sub. H.B. 215 of the 122nd G.A. is in place for the first time in fiscal year 2003, after a five-year phase-in schedule. In FY 2003, domestic insurance companies that are health insuring corporations (HICs) will pay a tax of 1.0 percent of premiums, while other domestic insurance companies will pay a tax of 1.4 percent of premiums.

The recent growth in revenues from this tax is primarily due to the phase-in to the new tax structure. In FY 2002, domestic HICs paid a tax of 0.8 percent of premiums, so that the new rate of 1.0 percent of premiums represents a straightforward increase in the tax rate. Other domestic insurance companies paid their FY 2002 tax based on a weighted average of the new formula described above and the formula that was in place prior to H.B. 215. Under the weighted average formula that applied in FY 2002, companies paid 80 percent of the tax calculated using the new formula of 1.4 percent of premiums, plus 20 percent of the tax calculated using the old formula. Under the old formula, insurance companies paid the lesser of 2.5 percent of premiums or 0.6 percent of capital and surplus. Even though the tax rate imposed on premiums was higher under the previous formula, for many companies the tax of 0.6 percent of capital and surplus was the lesser of the two calculations. The not-so-straightforward result has been that as the previous formula has been phased-out over the last five years, many companies have been submitting larger tax payments to Ohio under the tax. Ohio companies that operate in other states may have realized a fall in their overall tax burden, however, as the higher rates paid to Ohio may have reduced their tax payments to some other states under the retaliatory tax many states, including Ohio, impose. The retaliatory tax is described in the foreign insurance tax section.

The forecast is based on separate growth rates for different types of insurance companies. In FY 2002, 68.5 percent of the revenue certified by the Department of Insurance to the Treasurer of State for collection was assessed on fire and casualty insurance companies, 11.6 percent was assessed on life insurance companies, and 19.8 percent was assessed on HICs; the remainder was assessed on other insurance companies. An analysis of company-level data provided by the Department of Insurance led to an estimate that the transition from the old formula to the new formula in FY 2003 would increase taxes paid by fire and casualty insurers by 11.3 percent and taxes paid by life companies by 1.9 percent. For HICs, the adjustment would be 25 percent, the percentage increase from a 0.8 percent tax rate to a 1.0 percent tax rate.

Premiums collected by insurance companies are projected to grow at rates close to their average growth rate in recent years, with some adjustments that appear to be warranted due to considerations described below. Tax revenues are assessed on premiums collected during a calendar year, so that FY r 2003 revenues are based on calendar year 2002 premiums, FY 2004 revenues are based on calendar year 2003 premiums, etc.
Premiums collected by HICs are projected to grow by 9.2 percent in CY 2002, and by 6.6 percent in both CY 2003 and 2004. The 9.2 percent rate is the rate of growth in premiums collected during the first half of calendar year 2002 compared with premiums collected during the first half of CY 2001 according to Department of Insurance data. The 6.6 percent growth rate is the average rate of growth in premiums between 1997 and 2001.

Premiums collected by fire and casualty insurers are projected to grow by 9.0 percent in CY 2002, by 5.5 percent in CY 2003, and by 3.9 percent in CY 2004. The growth rate assumed for 2002 is high by historical measures, but is consistent with media reports of large increases in property and casualty premiums nationwide. An article in the September 30, 2002 issue of *National Underwriter* reported that premiums increased by 12 percent nationwide from the first half of 2001 to the first half of 2002. The growth rate projected for 2003 is the average growth rate between 1991 and 2001, according to Department of Insurance data. The growth rate for 2004 is projected to moderate further because the period 1991 through 2001 had two years, 1995 and 2001, with growth rates that seemed unusually high by historical standards.

Premiums collected by life insurance companies are projected to grow by zero percent in CY 2002, by 4.3 percent in 2003, and by 4.2 percent in 2004. The average growth in premiums between 1991 and 2000 was between 4.2 percent and 4.3 percent, and this average is used to project the growth for 2003 and 2004. The lack of growth projected for 2002 is due to the after-effect of a very high rate of growth in 2001. Life insurance premiums grew by over 37 percent in 2001; the next-highest rate of growth since 1991 was less than 22 percent, in 1993. In only one other year, 1999, did the growth exceed 10 percent. The rate of growth was actually negative in both years that followed a year with double-digit growth (1994 and 2000). This is also possible for 2002.

The revenue collected from insurance taxes is deposited into the General Revenue Fund. An additional 0.75 percent tax is levied on the gross premium receipts derived from fire insurance and that portion of the gross premium for other coverage that is reasonably allocable to fire insurance. Revenue from this tax is deposited into the Fire Marshall's Fund. The amount certified to the Treasurer of State to go to the Fire Marshall's Fund for FY 2002 was $6.5 million.