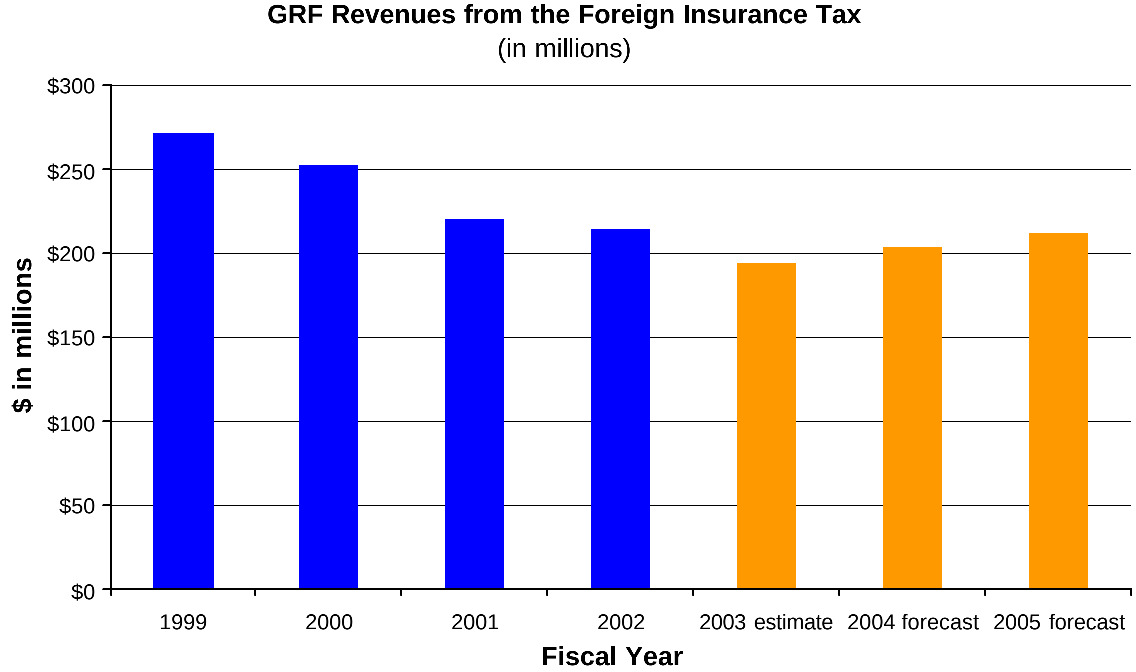
Foreign Insurance Tax



	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Estimate	FY 2004 Forecast	FY 2005 Forecast
Foreign Insurance	$271.6	$252.3	$220.6	$214.3	$194.1	$203.7	$211.9
growth	-3.3%	-7.1%	-12.6%	-2.8%	-9.4%	4.9%	4.0%

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

The recent decreases in revenues from this tax are primarily due to the phase-in to the new tax structure. In FY 2002, foreign insurance companies paid a tax of 1.62% of premiums, so that the new rate of 1.4% of premiums represents a straightforward decrease in the tax rate. This decrease is partially offset by an increase in the retaliatory tax that some foreign insurance companies pay. This retaliatory tax rate applies instead of the normal 1.4% rate for any insurance company headquartered in a state that levies a tax rate on Ohio insurance companies higher than the 1.4% that Ohio otherwise imposes on foreign insurance companies. Since Ohio has recently been lowering the tax rate applied to foreign insurance companies, more of those companies wind up paying the tax at the retaliatory rate. The retaliatory portion of this tax certified to the Treasurer of State increased from

$72.4 million in FY 2001 to 112.5 million in FY 2002. This approximately $40 million increase in the retaliatory tax went a long way toward offsetting the reduction in the normal tax rate.

The forecast is based on separate growth rates for different types of insurance companies. In FY 2002, 51.4% of the revenue certified by the Department of Insurance to the Treasurer of State for collection was assessed on fire and casualty insurance companies, 45.9% was assessed on life insurance companies, and 0.4% was assessed on HICs; the remainder was assessed on other insurance companies. These shares are significantly different from the comparable shares for domestic insurance companies, which are described in the section on the domestic insurance tax.
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. The adjustments are described in the section on the domestic insurance tax. Tax revenues are assessed on premiums collected during a calendar year, so that FY 2003 revenues are based on CY 2002 premiums, FY 2004 revenues are based on calendar year 2003 premiums, etc.

Premiums collected by HICs are projected to grow by 9.2% in calendar year 2002, and by 6.6% in both calendar years 2003 and 2004. Premiums collected by fire and casualty insurers are projected to grow by 9.0% in CY 2002, by 5.5% in CY 2003, and by 3.9% in calendar year 2004. Premiums collected by life insurance companies are projected to grow by zero percent in calendar year 2002, by 4.3% in 2003, and by 4.2% in 2004.

As with the domestic insurance tax, the revenue collected from this tax is deposited into the General Revenue Fund.