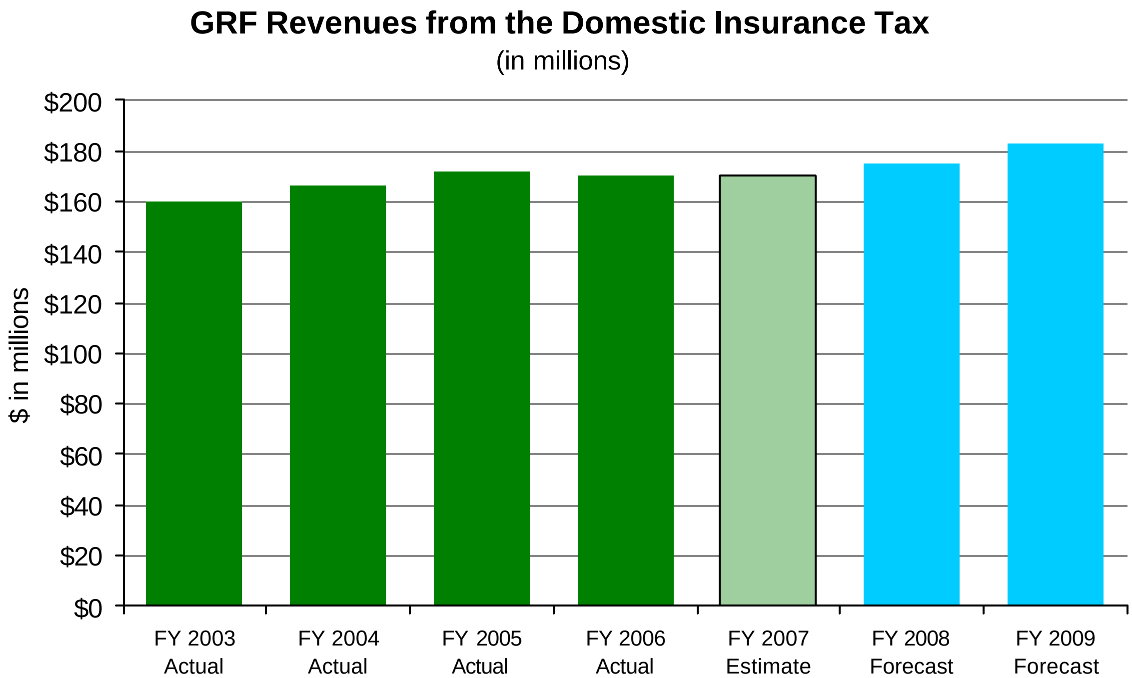
## *Domestic Insurance Tax*




| | FY 2003 Actual | FY 2004 Actual | FY 2005 Actual | FY 2006 Actual | FY 2007 Estimate | FY 2008 Forecast | FY 2009 Forecast |
|---|---|---|---|---|---|---|---|
| Revenue | $160.1 | $165.9 | $171.4 | $170.3 | $170.0 | $175.0 | $182.8 |
| Growth | 20.9% | 3.6% | 3.3% | -0.6% | -0.2% | 3.0% | 4.4% |

The domestic insurance tax is levied on premiums collected by insurance companies headquartered in Ohio. The tax is generally 1.4% of premiums; the primary exception is domestic insurance companies that are health insuring corporations (HICs) which pay 1.0% of premiums. This tax structure is the same as the current foreign insurance tax structure. Approximately 11% of the revenue from this tax derives from premiums paid for life insurance, and approximately 12% derives from premiums paid to HICs. The bulk of the revenue, slightly over three-quarters of it, is derived from fire and casualty insurance, a line of business that includes homeowner's insurance, automobile insurance, and other lines of business.

In accounting terms, revenue declined in FY 2006 because premiums paid to HICs declined by approximately $3.7 million, premiums paid to life insurers fell by approximately $0.3 million, and premiums paid to fire and casualty insurers grew by too little (about $1.9 million) to make up for the revenue loss. Premiums paid to HICs declined in both FY 2005 and FY 2004 as well, by approximately $3.0 million and $2.5 million, respectively. A Department of Insurance official indicates that these declines are probably due to changes in consumer preferences regarding the type of health coverage desired, from HICs to preferred provider organizations (PPOs) and more traditional insurance. This would imply that a turnaround to premium growth in this line of business is unlikely.

Other than the special situation of premiums paid to HICs, revenues under this tax are influenced by the same factors as revenues under the foreign insurance tax. As explained in the section on that tax, interest rates play a significant role in premium growth, and increases in short-term interest rates in 2005 and 2006 are expected to prevent revenue from the domestic insurance tax from growing in FY 2007. As interest rates stabilize in 2007 and 2008, revenue growth is projected to return to more typical levels.