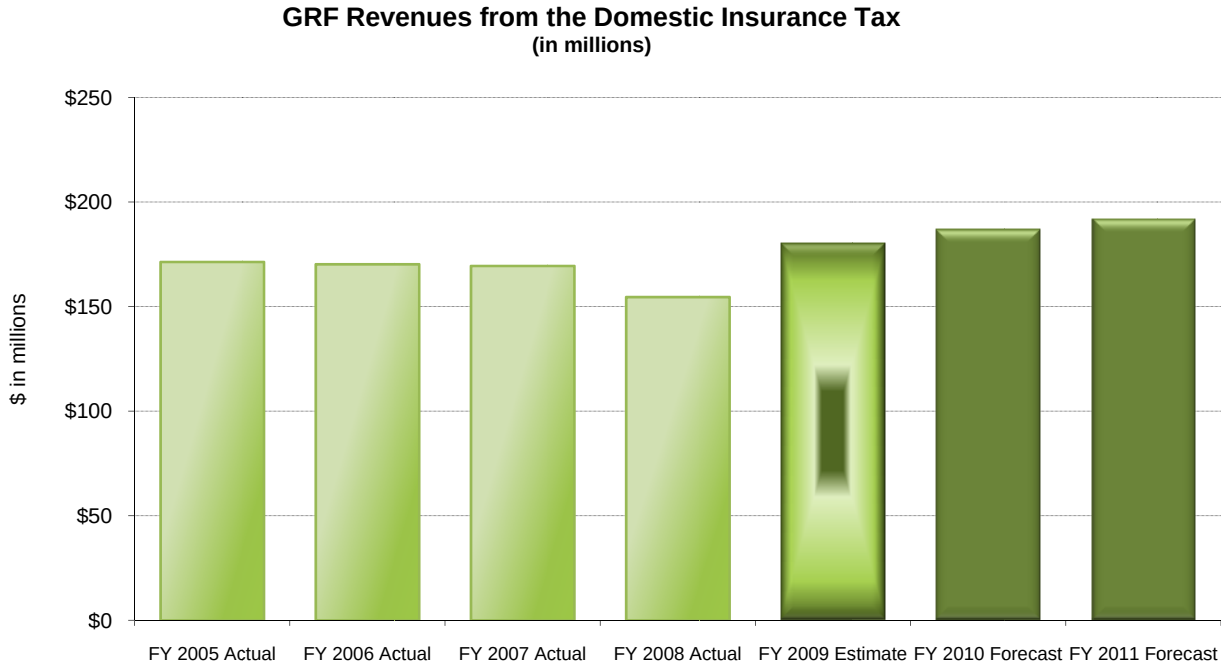
Domestic Insurance Tax



	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimate	FY 2010 Forecast	FY 2011 Forecast
Revenue	$171.4	$170.3	$169.5	$154.6	$180.5	$187.0	$192.0
Growth	3.3%	-0.6%	-0.5%	-8.8%	16.8%	3.6%	2.7%

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 12% of the revenue from this tax derives from premiums paid for life insurance, and approximately 9% derives from premiums paid to HICs. Nearly 80% of the revenue is derived from property and casualty insurance, a line of business that includes homeowner's insurance, automobile insurance, and other lines of business.

The revenue decrease in FY 2008 was primarily due to a misclassification of revenue: approximately $8.5 million in receipts under the domestic insurance tax were misclassified as foreign insurance tax receipts. In addition to that, revenue attributable to premiums paid to HICs declined by approximately $3.2 million, and revenue attributable to property and casualty insurance premiums fell by about $4.2 million. Revenue attributable to HIC premiums has fallen by approximately $3 million per year since FY 2003. A Department of Insurance official indicates that this trend is 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 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 decreases in short-term interest rates in 2007 and 2008 are expected to boost revenue from the domestic insurance tax significantly in FY 2009. The boost should be reinforced by a correction in the classification of revenue sources. A further reduction in interest rates in 2009 should help boost revenue strongly in FY 2010. Revenue growth is projected to return to more typical levels in FY 2011, due primarily to a forecast that interest rates will begin to rise again in calendar year 2010.