Legislative Analysis

REDUCE INSURANCE COMPANY PREMIUMS TAX RATE

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Senate Bill 1016 (S-1) as passed by the Senate
Sponsor: Sen. Jim Stamas
House Committee: Michigan Competitiveness
Senate Committee: Michigan Competitiveness
Complete to 5-29-18

SUMMARY:

Senate Bill 1016 would amend the Income Tax Act to reduce the Insurance Company Premiums Tax rate on certain health insurance policies beginning on January 1, 2019, and to provide for a calculation of that rate in future years.

Currently under the act, the Insurance Company Premiums tax is levied at an effective rate of 1.25% on the gross premiums of in-state insurance companies. There is a complementary tax, the Foreign Insurance Company Retaliatory Tax, levied at an effective rate of 1.25% on the gross premiums of out-of-state insurance companies, or the foreign insurance at single business tax equivalent or amount equal to foreign tax imposed, whichever is higher.

Under the bill, beginning on January 1, 2019, for gross direct premiums attributable to ***qualified health insurance policies,*** the tax imposed would be 0.95% through December 31, 2019, and, for the 2020 tax year and each tax year thereafter, the tax rate for those gross direct premiums attributable to qualified health insurance policies would be calculated as provided below.

Qualified health insurance policies would mean policies written on risk located or residing in Michigan that are one of the following types:

- Comprehensive major medical, regardless of whether the policy is eligible for a health savings account (HAS) or purchased on the health insurance marketplace.
- Student.
- Children's health insurance program.
- Medicaid.
- Employer comprehensive, again regardless of HSA eligibility or purchase on marketplace.
- Multiple employer associations or trusts and any other employer associations and trusts.

Calculating Future Tax Rate

By October 1, 2020 and each October 1 thereafter, the Department of Treasury would determine the tax rate to be imposed on gross direct premiums attributable to qualified health insurance policies for that calendar year as follows:

(1) Calculate the total liability for all taxpayers after all credits for qualified health insurance policies under the insurance company premiums tax and section 476a of the Insurance Code [the foreign retaliatory tax], for the prior calendar year.

(2) Calculate the total liability for all taxpayers after all credits for qualified health insurance policies under the insurance company premiums tax at a rate of 1.25% and section 476a of the Insurance Code [the foreign retaliatory tax], for the prior calendar year.

(3) Determine the actual amount of savings for the prior year as a result of the rate reduction proposed in the bill by subtracting (1) from (2).

(4) Determine the amount of savings above the savings limit for the prior calendar year by subtracting $18.0 million from (3).

(5) Determine the current year savings limit by subtracting the sum of the amounts determined under (4) for each calendar year beginning on and after January 1, 2019 from $18.0 million.

(6) Calculate the rate reduction for the current calendar year by dividing (5) by the amount of gross direct premiums attributable to qualified health insurance policies written by taxpayers with no liability under section 476a of the Insurance Code [the foreign retaliatory tax], for the prior calendar year.

(7) Calculate the tax rate for the current calendar year by subtracting (6) from 0.0125.

The state treasurer would develop a method to account for changes in tax liability occurring after the calculation of the immediately succeeding calendar year's rate.

MCL 206.635

FISCAL IMPACT:

As written, the bill is designed to annually adjust the rate paid by insurance companies on gross direct premiums attributable to qualified health insurance policies so that a net savings of $18.0 million is generated relative to the current statutory rate of 1.25% of gross direct premiums. Because the adjustment mechanism is calculated using prior year information, the amount could potentially deviate from the $18.0 million target, although on average the bill would reduce general fund revenue by $18.0 million per year.

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