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BILL ANALYSIS

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Senate Bill 1016 (as enrolled)
Sponsor: Senator Jim Stamas
Senate Committee: Michigan Competitiveness
House Committee: Michigan Competitiveness

Date Completed: 6-22-18

CONTENT

The bill would amend the Income Tax Act to reduce the rate of the gross premiums tax for health insurers, beginning January 1, 2019, according to a formula that would cap the total tax reduction per year at $18.0 million.

Chapter 12 of the Act requires insurance companies to pay a tax equal to 1.25% of gross direct premiums written on property or risk located or residing in the State.

Under the bill, beginning January 1, 2019, for gross direct premiums attributable to qualified health insurance policies, the rate would be 0.95% through December 31, 2019. For the 2020 tax year subsequent tax years, the rate on those premiums would have to be determined according a calculation set forth in the bill.

The bill would require the Department of Treasury, by the October 1 each year, beginning in 2020, to determine the rate for the year as described below:

A. Calculate the total liability for all taxpayers after all credits for qualified health insurance policies under Chapter 12 and Section 476a for the prior calendar year.
B. Calculate the total liability for all taxpayers after all credits for qualified health insurance policies under Chapter 12 at a rate of 1.25% and Section 476a for the prior calendar year.
C. Determine the actual amount of savings for the prior year as a result of the rate reduction in the bill by subtracting the amount determined under A. from the amount determined under B.
D. Determine the amount of savings above the savings limit from the prior calendar year, by subtracting $18.0 million from the amount determined under C.
E. Determine the current year savings limit by subtracting the sum of the amounts determined under D. for each calendar year beginning on and after January 1, 2019, from $18.0 million.
F. Calculate the rate reduction for the current calendar year by dividing the amount determined under E. by the amount of prior year gross direct premiums attributable to qualified health insurance policies written by taxpayers with no liability under Section 476a for the prior calendar year.
G. Calculate the tax rate for the current calendar year by subtracting the amount determined under F. from 0.0125.

(Section 476a provides for what is called the retaliatory tax on alien or foreign insurers from a state or country that imposes on a Michigan insurer a tax or other burden that is greater than that required by Michigan laws for a similar alien or foreign insurer transacting business in this State.)

The State Treasurer would have to develop a method to account for changes in tax liability occurring after the calculation of the rate for the following calendar year.

The bill would define "qualified health insurance policies" as policies written on risk located or residing in the State that are one of the following types: comprehensive major medical, student, Children's Health Insurance Program, Medicaid, employer comprehensive, or multiple employer associations or trusts and any other employer associations and trusts. A comprehensive major medical and employer comprehensive policy would be included regardless of whether it was eligible for a health savings account or purchased on the health insurance marketplace.

MCL 206.635 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately $18.0 million per year. Because the rate would be based on prior-year tax information, the bill would provide an adjustment mechanism to modify the rate in years when the revenue loss deviated from $18.0 million. As a result, on average, the loss would total $18.0 million per year. The bill would have no impact on local unit revenue.

Some taxpayers are affected by the retaliatory tax levied against out-of-State insurers. Those taxpayers would not experience reduced liabilities under the bill because their retaliatory tax would increase dollar-for-dollar for any reduction in tax liability attributable to the bill. Approximately 40% of Michigan insurance tax revenue, excluding the retaliatory tax, is received from firms subject to the retaliatory tax, and some data suggest that the share for taxpayers that receive premiums from health insurance policies is lower, at approximately 20%.

Fiscal Analyst: David Zin