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BILL ANALYSIS

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Senate Bill 1016 (as introduced 5-16-18)
Sponsor: Senator Jim Stamas
Committee: Michigan Competitiveness

Date Completed: 5-22-18

## 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.**

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, the tax imposed by Chapter 12 on each insurance company offering a health insurance policy as defined in Section 608 of the Insurance Code would be equal to 1.05% of gross direct premiums written on health insurance provided under a health insurance policy for risk located or residing in the State, and 1.25% of gross direct premiums written on any other property or risk located or residing in the State.

(Section 608 of the Insurance Code defines "health insurance policy" as an expense-incurred hospital, medical, or surgical policy, certificate, or contract.)

MCL 206.635 Legislative Analyst: Suzanne Lowe

## FISCAL IMPACT

The bill would reduce General Fund revenue by as much as $28.3 million per year. The actual reduction would depend on the extent to which affected taxpayers were subject to retaliatory tax provisions in Michigan statute. Based on 2017 data on health insurance premiums, the bill would reduce revenue by approximately $28.3 million per year. However, the data do not indicate which taxpayers are covered by retaliatory tax provisions 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% 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 health insurance policies is lower, at approximately 20%. If 40% of the premiums are paid to firms subject to the retaliatory tax, the bill would reduce revenue by $17.0 million per year. A greater percentage of premiums paid to firms subject to the retaliatory tax implies a smaller revenue loss, while a smaller percentage implies that the revenue loss would be greater. If 20% of the premiums are paid to firms subject to the retaliatory tax, the bill would reduce revenue by approximately $22.6 million per year. If none of the taxpayers affected by the bill were subject to the retaliatory tax, the bill would reduce revenue by $28.3 million per year.

Fiscal Analyst: David Zin

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