

INSURANCE TAX - DOMESTIC

TAX BASE

The former tax base and calculation structure of the domestic insurance tax is being phased out. In 2002, taxpayers must determine both the old and new tax bases. (In 2003, only the new base will apply.)

Old Base: Either capital and surplus, or gross premiums, whichever base yields less tax.

New Base: Gross premiums.

RATES

In 2002, an insurance company pays 20% of the tax calculated under the old base and rates, plus 80% of the tax calculated under the new base and rate. (In 2003, only the new base and rate will apply.)

Old Tax Base Rates: 0.6% of capital and surplus, or 2.5% of gross premiums, whichever yields less tax.

New Tax Base Rates: 1.4% of gross premiums.

Minimum tax for 2002 is \$200. (In 2003, the minimum tax will be \$250.)

REVENUE (IN MILLIONS)

Fiscal Year	General Revenue Fund
1998	\$63.2
1999	77.5
2000	88.2
2001	109.3

DISPOSITION OF REVENUE

General Revenue Fund.

SECTIONS OF OHIO REVISED CODE

Sections 5725.18 to 5725.24 and 3737.71.

RESPONSIBILITY FOR ADMINISTRATION

Director, Department of Insurance.

REMITTER OF TAX

Insurance companies organized under Ohio law.

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PAYMENT DATES

Director of Insurance certifies the tax to the State Treasurer by the first Monday of May. Within 20 days, the State Treasurer issues a tax bill with payment due 20 to 30 days from the date the tax bill is mailed.

Note: Tax year is defined as the year in which the payments are filed. Payments are based upon the previous year's business activity.

SPECIAL PROVISIONS / CREDITS

A tax credit for insurer groups with less than \$75 million in total premium sales to be phased in from tax year 1999 to 2003, with a maximum credit of \$200,000 in year 2003. In 2002, the maximum credit allowed is \$160,000.

Members of the Ohio Life and Health Guaranty Association are subject to assessment by the Association. Should a member become impaired or insolvent, the other members of the Association are assessed at a rate not to exceed 2 percent of their gross premiums to protect policy holders of the impaired or insolvent insurers. A 100% tax credit is given to the members of Ohio Life and Health Guaranty Association on their assessments paid to the Association.

Domestic insurers that are health insurance corporations are taxed at the rate of 1% of all premium payments, exclusive of payments received by Medicare and Medicaid.

HISTORY OF MAJOR CHANGES

- 1830 • 4% property tax on dividends paid by insurance companies.
- 1852 • Insurance companies required to list real property, tangible property, money, and credits for taxation.
- 1933 • Changed to a franchise tax on the smaller of the following:
 - 0.2% of capital and surplus.
 - 1.67% on premiums.
- 1971 • Franchise tax rate changed to smaller of the following:
 - 0.3% of capital and surplus.
 - 2.5% on gross premiums.

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HISTORY OF MAJOR CHANGES (con't.)

- 1981 • Tax rate on capital and surplus increased to 0.6%.
- 1989 • Established the Ohio Life and Health Guaranty Association and assessment: 100% tax credit for assessment paid by participating insurers.
- 1997 • The rate for domestic insurers is to be reduced to 1.4%. This is to be phased in starting in tax year 1999 to 2002. Minimum tax of \$250 to be phased in over same period.
 - Tax credit for insurer groups with less than \$50 million in Ohio premium sales to be phased in from tax year 1999 to 2002. The threshold is increased to \$75 million from July 1, 1999.
 - The capital and surplus tax base will be phased out starting in tax year 1999 through 2002. Beginning with tax year 2003, the tax will be computed solely on gross premiums.

COMPARISON WITH OTHER STATES

<u>State</u>	<u>Tax Rate⁽¹⁾</u>
California	In general 2.35%; ocean marine insurers 0.5%; surplus line brokers 5% of gross premiums.
Florida	Annuities 1% ⁽²⁾ , wet marine and transportation 0.75%; commercial self-insurance fund, medical malpractice 1.6%; all others 1.75% of gross premiums.
Illinois	In general 2.0%; surplus line 3% of gross premiums.
Indiana	2% premium tax or may elect to pay the gross income tax.
Kentucky	In general, \$2 per \$100 of gross premiums.
Massachusetts	2.0% of taxable gross premiums, plus a surtax of 14.0% of the tax imposed.
Michigan	Single-business tax of 1.9916% in tax year 2002.
New Jersey	In general, 1.05% of gross premiums on group accident and health; all others 2.1%.

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COMPARISON WITH OTHER STATES (con't.)

<u>State</u>	<u>Tax Rate⁽¹⁾</u>
New York	0.8% on life insurer's premiums; 1% on accident and health insurers; 1.3% for others. ⁽³⁾
Ohio	The tax on capital and surplus is being phased out with 2002 being the last year it is used. The tax rate of 1.4% on gross premiums will be effective starting in tax year 2003. (See RATES section for 2002 rates.)
Pennsylvania	2% of gross premiums.
Texas	1.75% of premium receipts for life, accident and health insurance; 3.5% for others.
West Virginia	4% for fire and casualty; 3% for others; annuities 1.0%.

⁽¹⁾ Other rates may apply to specific types of insurance and insurance providers.

⁽²⁾ Domestic insurers maintaining their home offices in Florida are exempt.

⁽³⁾ Insurance companies also pay New York corporate franchise tax.