INSURANCE PREMIUM TAX

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INSURANCE PREMIUM TAX REVENUE

The insurance premium tax generated on average about $240 million in FYs 13-15 or 1.67% of total state tax revenues. The table below shows the insurance premium tax revenues for each of those fiscal years and the share of total state tax revenues.

Insurance Premium Tax Revenue as a Share of Total Tax Revenue: FYs 13-15 (in millions)

FY	Total Tax Revenue	Insurance Premium Tax	
		Total Revenue	% of Total State Tax Revenue
13	$14,552.7	$260.9	1.8
14	14,323.1	240.7	1.7
15	14,792.3	220.6	1.5

Source: Office of Fiscal Analysis

ISSUE

Describe Connecticut's insurance premium tax.

SUMMARY

Connecticut imposes an insurance premium tax on insurance premiums and health care center subscription charges (CGS §§ 12-201 et seq.). For authorized insurers, the tax rate is 1.75% of the annual direct net premiums for policies on property or risks in Connecticut. For people and entities purchasing insurance from unauthorized insurers, the tax rate is 4% of the gross premiums charged for the insurance. The rate for health care centers is 1.75% of direct net subscription charges.

The law exempts premiums for specified policies and subscription charges paid by enrollees of specified health care plans. Insurers and health care centers also qualify for various credits against the tax, a portion of which they must pay each calendar quarter. They and the parties purchasing insurance from unauthorized insurers are liable for penalties if they underpay the required amount or inaccurately estimate their annual tax liability.

Attachment 1 outlines the insurance premium tax's structure.

INSURANCE PREMIUM TAX

Taxable Transactions

The insurance premium tax is a tax on insurance premiums and health care subscription charges. Insurers licensed to do business in Connecticut (i.e., authorized insurers) pay a tax of 1.75% of their annual net direct premiums for property or risk insured in Connecticut, excluding cancellations and other returned premiums and dividends paid to policyholders on direct business. These insurers include those incorporated in Connecticut (i.e., domestic insurers) and those incorporated in other states or countries (i.e., foreign insurers).

People and entities that purchase insurance from unlicensed insurers (i.e., unauthorized insurers) pay a tax of 4% of the gross premiums, including membership fees, assessments, dues, and other considerations for insurance. Unauthorized insurers typically insure unique or uncommon conditions or circumstances.

Health care centers pay a tax of 1.75% of their annual direct net subscriber charges, excluding cancellations and other returned charges.

Tax Exemptions

The law exempts premiums (1) foreign insurers receive for marine insurance policies and (2) paid for marine related policies (i.e., "wet marine" and transportation insurance) issued by unauthorized insurers.

The law also exempts charges health care centers receive from people enrolled in specified health care plans, including Medicaid, Medicare, HUSKY, and state employee health plans.

There are no exemptions for domestic insurers.

Insurer and Health Care Center Tax Credit

Domestic insurers with admitted assets under $95 million qualify for a credit equal to 80% of their annual corporation business taxes and Insurance Department assessments.

Domestic and foreign insurers and health care centers also qualify for a wide range of credits for various expenditures, including purchasing electronic data processing equipment, contributing funds to specified charitable purposes, and investing in specified economic development projects or funds. Attachment 2 identifies and describes these credits.

Payment Schedule

Licensed insurers and health care centers pay a portion of the tax each calendar quarter. They must pay 30% of the total tax by March 15, 60% by June 15, 80% by September 15, and 100% by December 15. The total tax must equal 90% of their estimated annual tax or 100% of the taxes paid for the prior year.

People and entities purchasing insurance from unauthorized insurers must pay the tax by March first of the calendar following the year they purchased the insurance.

Penalties

Insurers and health care centers that underpay the required quarterly installment must pay interest on the unpaid amount at a rate of 1% per month for each month until they pay the balance. They are also subject to penalties if the insurance commissioner finds a deficiency in their annual returns.

People and entities purchasing insurance from unauthorized insurers are also liable for penalties if they fail to pay the tax on time. The penalty is 10% of the tax or $75, whichever is greater plus interest at 1% per month until the tax is paid.

Attachment 1: Structure of the Insurance Premium Tax

<table>
<tr><th colspan="4">Taxable Transactions</th></tr>
<tr><td colspan="3">Sale of insurance policies</td><td>Sale of subscriptions for health care center services</td></tr>
<tr><th colspan="4">Taxpayers</th></tr>
<tr><td>Domestic Insurance Companies (i.e., companies incorporated in Connecticut)</td><td>Foreign Insurance Companies (i.e., companies incorporated in other states)</td><td>People and entities purchasing insurance from unauthorized insurers (i.e., insurers covering unique or uncommon risks)</td><td>Health Care Centers</td></tr>
<tr><th colspan="4">Tax Bases</th></tr>
<tr><td>Total net direct premiums excluding:
• Cancellations and other returned premiums and
• Dividends paid to policyholders on direct business</td><td>Total net direct premiums excluding:
• Cancellations and other returned premiums and
• Dividends paid to policyholders on direct business</td><td>Gross premiums, including membership fees, assessments, dues, and other consideration for insurance, excluding premiums paid for marine related policies</td><td>Net direct subscriber charges, excluding cancellations and other returned charges</td></tr>
<tr><th colspan="4">Exemptions</th></tr>
<tr><td>No exemptions</td><td>Ocean marine insurance (policies on goods shipped by water)</td><td>Wet marine and transportation insurance (i.e., insurance covering vessels, marine builders' risks, marine-related freight and disbursements, and shipped personal property)</td><td>Subscription charges paid by people enrolled in specified health care plans, including Medicaid, Medicare, HUSKY, and state employee health plan</td></tr>
<tr><th colspan="4">Tax Rates</th></tr>
<tr><td colspan="2">For domestic and foreign insurers: 1.75% of net direct premiums</td><td>4% of gross premium</td><td>1.75% of net subscriber charges</td></tr>
<tr><th colspan="4">Tax Credits by Taxpayer</th></tr>
<tr><td>• Companies with admitted assets under $95 million qualify for credits equal to 80% of corporation business taxes and Insurance Department assessments paid during calendar year
• Plus credits for various charitable, business, and economic development purposes, up to statutory caps (see Attachment 2)</td><td>Credits for various charitable, business, and economic development purposes, up to statutory caps (see Attachment 2)</td><td>No credits</td><td>Credits for various charitable, business, and economic development purposes, up to statutory caps (see Attachment 2)</td></tr>
</table>

Attachment 1 (continued)

Tax Payment Schedule		
For domestic and foreign insurers, quarterly installment payments: • January 1-March 31, 30%, due March 15 • April 1-June 30, 60%, due June 15 • July 1-September 30, 80%, due September 15 • October 1-December 31, 100%, due December 15	March 1 following the year the insurance was purchased	Quarterly installment payments: • January 1-March 31, 30%, due March 15 • April 1-June 30, 60%, due June 15 • July 1-September 30, 80%, due September 15 • October 1-December 31, 100%, due December 15
Enforcement		

For licensed domestic and foreign insurers:
• Penalties and interest charges for missing quarterly payment deadlines:
  o For missing deadline: greater or 10% of tax due or \$50 for missing deadline, plus interest at 1% per month from deadline until payment
  o For failing to submit a return within three months of filing deadline, commissioner may make the return and impose the above penalty
  o For willfully failing to pay tax, make the return, or provide required information, \$1,000 fine, term of imprisonment up to one year, or both
• Insurance commissioner must audit returns within three years of receipt and must penalize taxpayers for deficient payments:
  o Lesser of 10% of deficiency or \$50 if the taxpayer was negligent or intentionally disregarded the law or implementing regulations or
  o 25% of deficiency if the taxpayer committed fraud or intentionally tried to evade the law
  o Taxpayer must also pay interest equal to 1% of the deficiency assessment from the original tax's due date
Commissioner's action subject to administrative hearing and appeal to Superior Court
	For people and entities purchasing insurance from unauthorized insurers, 10% penalty or \$75, whichever is greater plus monthly 1% interest from the tax's due date	For health care centers, same as licensed domestic and foreign insurers

Attachment 2: Tax Credits Against the Insurance Premium Tax

Tax Credit Program and Year Enacted	***Eligibility Criteria***	***Credit Limits***	***Carryforward or Carryback***	***Transferable***
Electronic Data Processing Equipment (CGS § 12-217t; 1994)	Businesses paying property taxes on computers, printers, peripheral computer equipment, bundled software, and similar equipment	Credit equals 100% of property tax paid on electronic data processing equipment	Five-year carryforward; no carryback	No
Neighborhood Assistance Act (CGS §§ 12-630aa et seq.; 1982) *	Minimum $250 contribution toward municipally-approved community service program	• Total credits for all projects capped at $5 million per year • Credit equals 100% for energy conservation and college access loan forgiveness programs; 60% for all other programs; in both cases, credit amount capped at $150,000 annually	No carryforward; two-year carryback	No
Neighborhood Assistance Act, Energy Conservation (CGS § 12-635;1982) *	Minimum $250 contribution toward municipally-approved community service program	• Total credits for all projects capped at $5 million per year • 100% credit for energy conservation in properties: ○ where at least 75% of the occupants earn no more than 150% of the poverty level or ○ owned and occupied by charitable corporations, foundations, trusts, or other entities	No carryforward; two-year carryback	No
Small Business Creating Jobs (CGS § 12-217nn; 2010; sunset December 31, 2012) **	• Businesses with fewer than 50 employees in Connecticut that create new jobs filled by Connecticut residents • New employees must work at least 35 hours per week for at least 48 weeks per calendar year • Credits available only for jobs created between May 6, 2010 and December 31, 2012	• Total credits for these and other job creation tax credits capped at $20 million per year • Three-year, $200 per month per new employee credit	No carryforward or carryback	No

Tax Credit Program and Year Enacted	*Eligibility Criteria*	*Credit Limits*	*Carryforward or Carryback*	*Transferable*

Job Expansion Tax (JET) Credit Program
 	
(CGS § 12-217pp; 2011; sunset December 31, 2013)
	• Business creating jobs between January 1, 2012 and December 31, 2013
	• Required number of jobs to be created depends on number of existing employees
	• Minimum required hours depending on type of employee:
	  ○ New employees must work at least 35 hours per week for at least 48 weeks per calendar year
	  ○ Previously unemployed employees and those receiving services from the Departments of Rehabilitation Services or participating in Department of Social Services programs must work at least 20 hours per week for 48 weeks per calendar year (i.e., qualifying employees)
		• Total credits for these and other job creation tax credits capped at $40 million over the duration of the JET credit program**
		• Three-year credit:
		  ○ $500 per new employee or
		  ○ $900 per qualifying employee meeting specified criteria
		• Economic and community development commissioner must base her decision on whether to approve second- or third-year credits for new employees on whether doing so is consistent with the state's economic development priorities
			No carryforward or carryback	No

Neighborhood Assistance Act, Day Care and Job Training
 	
(CGS §§ 12-634 and 12-635; 1982) *
	Minimum $250 contribution toward municipally-approved community service program	• Total credits for all projects capped at $5 million per year
		• Credit equals 60% credit for contributions to:
		  ○ daycare facilities used primarily by business' employees (capped at $50,000 per year per business) or
		  ○ specified job training programs
			No carryforward; two-year carryback	No

Contributions to Low- and Moderate-Income Housing Programs (CGS § 8-395; 1987)	Minimum $250 cash contribution to Connecticut Housing Finance Authority-approved housing programs managed by nonprofit organizations	• Total credits capped at $10 million per year • Total credit-eligible contributions per program capped at $500,000 per year per organization	Five-year carryforward and carryback	No

Tax Credit Program and Year Enacted	***Eligibility Criteria***	***Credit Limits***	***Carryforward or Carryback***	***Transferable***

Historic Homes Rehabilitation
 	
(CGS § 10-416; 1999)
	• Qualified rehabilitation expenditure must exceed $25,000 (threshold reduced to $15,000 effective July, 1, 2015)
	• Businesses contributing funds towards the rehabilitation qualify for credits if the individual or nonprofit organization that did the work designated them for the credits
	• Property must be:
	  ○ one- to four-unit dwelling
	  ○ listed on the national or state Register of Historic Places or be located in an historic district and contribute to its character
	  ○ located in targeted areas (available statewide effective July 1, 2015, subject to annual credit cap)
	  ○ occupied as owner's principal residence for at least five years
		• Total credits capped at $3 million per year; beginning July 1, 2015, $2.1 million of the credits reserved for homes rehabilitated in targeted areas
		• Credit equals 30% of eligible construction costs, up to $30,000 per dwelling unit (up to $50,000 per unit, effective July 1, 2015, for businesses that contribute to projects undertaken by nonprofit organizations)
			Four-year carryforward; no carryback	No

Converting Historic Business Property to Residential Uses
 	
(CGS § 10-416a; 2006, no new credits may be reserved after July 1, 2014)
	• Qualified rehabilitation expenditures for converting historic business structures to residential use
	• The following types of property listed on the national or state Register of Historic Places or located in an historic district on the national or state register:
	  ○ commercial or industrial
	  ○ cultural
	  ○ institutional
	  ○ government
	  ○ residential with at least five units
		• Total credits capped at $15 million per year
		• Credit equals 25% of qualified rehabilitation expenditures, up to $2.7 million
			Five-year carryforward; no carryback	Yes, credit owner may transfer the credit, but assignee may not further transfer it

Tax Credit Program and Year Enacted	***Eligibility Criteria***	***Credit Limits***	***Carryforward or Carryback***	***Transferable***
Rehabilitating Historic Business Property for Mixed Residential and Commercial Use (CGS § 10-416b; 2007, no new credits may be reserved after July 1, 2014)	• Rehabilitation of certified historic business property for mixed residential and nonresidential uses or residential uses • The following types of property listed on the national or state Register of Historic Places or located in an historic district on the national or state register: ○ commercial or industrial ○ cultural ○ institutional ○ government ○ residential with at least five units	• Total credits capped at $50 million per three-year cycle, beginning with FYs 09-11 • Credit equals 25% of qualified rehabilitation expenditures; 30% if project includes units affordable to low- and moderate-income people • No project can receive more than 10% of credits ($5 million) available for the three-year cycle	Five-year carryforward; no carryback	Yes, credit owner may transfer the credit, but assignee may not further transfer it
Rehabilitating Certified Historic Structures (CGS § 10-416c; 2014)	Property (1) listed on the national or state Register of Historic Places or (2) located in an historic district on the national or state register and certified as contributing to its historic character	• Total credits capped at $31.7 million per year • Credit equals 25% of qualified rehabilitation expenditures; 30% if project includes units affordable to low- and moderate-income people • No project can receive more than $4.5 million in credits	Five-year carryforward; no carryback	Yes, up to three times
Urban and Industrial Sites Reinvestment (CGS § 32-9t; 2000)	• Businesses investing in projects developing or redeveloping property, including brownfields, that meet statutory criteria, including generating new tax revenue and other economic benefits • Minimum asset value of each investment depends on whether taxpayers invest directly in a project or invest indirectly through a fund manager	• Total credits available for all projects capped at $800 million • Credit equals 100% of investment up to $100 million, spread out over 10 years: ○ 0% in first three years after investment was made ○ 10% per year in the next four years, and ○ 20% in the remaining three years	Five-year carryforward; no carryback	Yes, credit owner may transfer the credit, but assignee may not further transfer it

Tax Credit Program and Year Enacted	***Eligibility Criteria***	***Credit Limits***	***Carryforward or Carryback***	***Transferable***
Film Production (CGS § 12-217jj, 2006; two-year moratorium for FY 14 and FY 15)	• Production companies producing a qualified production must incur specified production expenses and costs in Connecticut and: ○ conduct at least 50% of principal photography days in Connecticut or ○ incur 50% or $1 million of post production costs here • Qualified productions include "relocated television productions": ○ filming in qualified production facility ○ investing at least $25 million ○ creating at least 200 jobs • For FY 14 and FY 15, no tax credit vouchers may be issued for motion pictures that have not been designated as state-certified productions prior to July 1, 2013, with the following exception: During FY 15, a motion picture may receive a voucher if it conducts at least 25% of its principal photography days in a Connecticut facility that (1) receives at least $25 million in private investment and (2) opens for business on or after July 1, 2013	• Three-tiered credits: ○ 10% for eligible expenditures between $100,000-$500,000 ○ 15% for eligible expenditures between $500,000 and $1 million ○ 30% for eligible expenditures over $1 million • Credit certification for relocated television production companies is good for 10 years	All or any part of the tax credit may be claimed in the year the production expenses or costs were incurred or in any of the three succeeding years	Yes, up to three times, subject to limitations With certain exceptions, an entity that is not subject to the insurance premiums or corporation tax may not assign more than 25% of its tax credits in any one income year
Film Production Infrastructure (CGS § 12-217kk, 2007)	Business must spend at least $3 million developing building, facilities, and installations needed for film and digital media production	• 20% credit • Infrastructure must be 100% completed before credit can be claimed	All or any part of the tax credit may be claimed in the year the production expenses or costs were incurred or in any of the three succeeding years	Yes, up to three times

Tax Credit Program and Year Enacted	*Eligibility Criteria*	*Credit Limits*	*Carryforward or Carryback*	*Transferable*
Digital Animation Production (CGS § 12-217*ll*, 2007)	• Business must incur eligible production expenses and costs in Connecticut • Eligible costs and expenses include intellectual property, production equipment, and trailers	• Total annual credits capped at $15 million • Three-tiered credit: ○ 10% for expenditures between $100,000-$500,000 ○ 15% for expenditures between $500,000 and $1 million ○ 30% for expenditures over $1 million	All or any part of the tax credit may be claimed in the year the production expenses or costs were incurred or in any of the three succeeding years	Yes, up to three times
Insurance Reinvestment (CGS § 38a-88a, 1994)	• Insurance companies investing cash in state-certified "insurance reinvestment funds" • Funds must invest the cash only in eligible Connecticut-based businesses and meet other investment requirements	• 100% of cash investment claimed over 10 years, beginning in the fourth year after investment was made: ○ 10% per year in years four through seven ○ 20% per year in years eight through 10	Five-year carry forward; no carryback	Yes, credit owner may transfer the credit, but assignee may not further transfer it

* PA 11-140 expanded the credits to these businesses but did not make corresponding changes to the statutory procedures for claiming the credit

** The law caps the total amount of tax credits that may be issued under four job creation tax credit programs (i.e., new job creation, small business job creation, vocational rehabilitation job creation, and job expansion tax credits). PA 13-232 changed the credit cap on the JET credits, from $20 million per year to $40 million over the duration of the JET program, but did not make conforming changes to the caps in the other programs' statutes. Two of these credit programs, the new job creation and vocational rehabilitation job creation tax credits, are now defunct.

JR:bs