WV Insurance Premium Taxes and Surcharges

Joint Select Committee on Tax Reform

9/15/2015
Summary Overview

• The various state taxes in your insurance premium
• Premium taxes support
  – General Revenue
  – Municipal Pensions
  – Volunteer Fire Departments
  – Fire Marshal’s Office
  – Teachers Retirement
• WV premium tax percentage to other states
• Workers Compensation Surcharges
3% Premium Tax

• WV Code §33-3-14 & 14a
• “Insurance Tax Fund” – General Revenue
• All lines of insurance are subject to the tax unless specifically exempted elsewhere in the code.
• Life, Health, Property, Casualty, etc.
• WV Code §33-3-17 Minimum Tax Payable $200
• Est Annual Revenue = $111,000,000
1% Additional Tax

- WV Code §33-3-14d
- “Municipal Pensions and Protection Fund” – Special Revenue
  - 65% Municipal Police & Fire Pensions
  - 25% Volunteer Fire Departments
  - 10% Teachers Retirement System
- All Property and Casualty lines of insurance (Homeowners, Auto, etc.) unless specifically exempted elsewhere in the code.
- Est Annual Revenue = $22,700,000
0.55% Surcharge

• WV Code §33-3-33
• “Fire Protection Fund” – Special Revenue
• Volunteer Fire Departments
  – Quarterly distributions
  – Equal shares
• All Property and Casualty lines of insurance (Homeowners, Auto, etc.) unless specifically exempted elsewhere in the code.
• Est Annual Revenue = $12,500,000
0.55% Surcharge (cont.)

- Surcharge enacted in 1992
- Original Surcharge 1%
  - 50% Volunteer Fire Departments
  - 50% Teachers Retirement System
- Surcharge reduced in December 2005
  - New Surcharge percentage 0.55%
  - All monies collected directed to Volunteer Fire Departments
0.50% Fire Marshal Tax

- WV Code §29-3-22
- “Fire Marshal Fees Fund” – Special Revenue
- State Fire Marshal appropriations
  - State tax schedule
    - 60% Homeowners
    - 5% Auto
- Premiums applicable to the hazard of fire
- Est Annual Revenue = $1,900,000
1% Annuity Tax

- WV Code §33-3-15
- “Insurance Tax Fund” – General Revenue
- Gross amount of Annuity considerations collected and received.
- Est Annual Revenue = $4,000,000
- Only 7 other states tax annuities
- The majority of those 7 states provide an exemption for qualified retirement plans
  - California, Florida, Maine, Minnesota, Nevada, South Dakota, Wyoming
4.55% Surplus Lines Tax

• WV Code §33-12C-7
• Surplus lines (excess lines) is a segment of the regulated insurance market that makes P&C coverage (mostly commercial) available for specialized risks that the standard market is unwilling to underwrite
  – Firework sales
  – Hazardous waste storage
  – Medical malpractice specialties
4.55% Surplus Lines Tax (cont.)

- Tax is collected and remitted by the WV licensed “surplus lines licensee” (insurance agent) for surplus lines coverage obtained.
- Tax is 4.55%
  - 88% allocated the same as the Additional Tax (slide 3)
    - 65% Municipal Police & Fire Pensions
    - 25% Volunteer Fire Departments
    - 10% Teachers Retirement System
  - 12% allocated the same as the 0.55% Surcharge (slide 4)
    - 100% Volunteer Fire Departments
- Est Annual Revenue = $4,550,000
  - 88% = $4,000,000
  - 12% = $550,000
Beneficiary Summary

- General Revenue: $115,000,000
- Municipal Pensions: $17,355,000
- Vol Fire Departments: $19,725,000
- State Fire Marshal: $1,900,000
- Teachers Retirement: $2,670,000
- Total: $156,650,000
State Comparison – Premium Taxes

Property & Casualty

– 4% tax + 0.55% surcharge = 4.55%

• WV Highest – 4.55%

• Avg State P&C Tax = 2.14%

• Most Common = 2.0%
  – KY = 2.00%
  – OH = 1.40%
  – VA = 2.25%

Fire Premium Tax

– 4.5% tax + 0.55% surcharge = 5.05%

• WV 2nd Highest = 5.05%

• Avg State Fire Tax = 2.6%

• Most Common = 2.0%
  – KY = 2.75%
  – OH = 2.15%
  – VA = 3.25%
Retaliatory Taxes

• WV Code §33-3-16
• Retaliatory tax is an additional tax levied on insurance companies that are domiciled outside of the taxing state in order to burden those “out-of-state” insurers in exactly the same way that the out-of-state insurer’s state of domicile would burden an insurer from the taxing state. It is intended to “level the playing field” by deterring a state from imposing excessive tax on non-domiciled insurance companies.
Retaliatory Taxes (cont.)

• Generally, since WV’s premium taxes are higher than most states, WV is not receiving material retaliatory taxes or fees.

• Rather WV’s domestic (“in-state”) insurers are retaliated by other states for the premiums they write in other states.

• State X with a 2% premium tax would assess a WV domiciled insurer an additional 2.5% retaliatory tax (total 4.5%) for business written in state X.
Credits Against Premium Tax for Investment in WV Securities

• WV Code §33-3-14b
• At least 25% of admitted assets are in WV securities
• Insurer employs less than 20 FTEs
• Insurer has less than ten million dollars in premiums
• A minimum of fifty percent of its premium are derived from insurance provided to under-served areas of West Virginia
• No insurers sought this credit in 2014
Workers Compensation

• WV Code §23-2C-3(f)
• WC premiums are not subject to premium taxes and surcharges of Chapter 33
• In lieu, WC premiums are subject to the following Chapter 23 Surcharges:
  – “Debt Reduction” 9% of the premiums collected plus the total of all premium discounts based on applied deductibles
  – “Regulatory” 5% of the premiums collected plus the total of all premium discounts based on applied deductibles
WC Surcharges

• Debt Reduction Policyholders – Pay down the deficit position incurred when the state provided workers compensation coverage (Old Fund – legacy liabilities)

• Debt Reduction Self-insureds – Payroll based calculation, any excess/shortage adjusted each year to contribute $9 M annually.

• Regulatory Surcharge – Funds WC regulatory responsibilities transferred the OIC
  – Office of Judges
  – Board of Review

• Regulatory Self-insureds – Payroll based calculation, any excess/shortage adjusted each year to cover SI regulation.
## WC – Pledged Revenues

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Policyholders - §23-2C-3(f)(3)(A)</td>
<td>$34,000,000</td>
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<tr>
<td>Self Insureds - §23-2C-3(f)(3)(B)</td>
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<td>Personal Income Taxes - §11-21-96(a), §4-11A-18(a)</td>
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<td>Severance Taxes - §11-13V-4</td>
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<td>Lottery - §29-22A-10(c)(9)(A)</td>
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**Estimated Annual Total**: $257,400,000
Thank You

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