



**FINAL
FISCAL NOTE**

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-1123

Date: August 26, 2016

Prime Sponsor(s): Sen. Grantham

Bill Status: Signed into Law

Rep. Young

Fiscal Analyst: Greg Sobetski (303-866-4105)

BILL TOPIC: HOME OR REGIONAL OFFICE DEFINITION INSURANCE PREMIUM TAX

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Expenditures	Workload increase.	
Appropriation Required: None.		
Future Year Impacts: None.		

Summary of Legislation

Effective January 1, 2017, the bill expands the criteria that an insurance company may satisfy in order to qualify for a reduced insurance premium tax rate. Specifically, it removes the requirement that companies that maintain significant direct insurance operations perform specific operational functions in Colorado in order to qualify for the lower insurance premium tax paid by companies with home offices or regional home offices in Colorado.

Background

Under current law, insurance premiums are taxed at a rate of 2.0 percent. Insurance companies that perform certain business functions in the state may qualify as having a Colorado home office or regional home office, in which case their premiums are taxed at a rate of 1.0 percent. These include:

- actuarial functions;
- medical functions;
- legal functions;
- approval or rejection of applications;
- issuance of policies, information, and service;
- advertising and publications;
- public relations; and
- hiring, testing, and training of sales and service forces.

Companies that perform these functions in Colorado for all states in which they operate are considered to have a home office, while companies that perform these functions in Colorado for at least three states are considered to have a regional home office.

Under current law, companies that maintain significant direct insurance operations in Colorado may qualify for the home office or regional home office tax rate reduction if they perform operational functions substantially equivalent to those listed above.

For tax year 2015, the state collected \$247.6 million in insurance premium tax, of which \$19.4 million was collected from insurance companies qualifying for the reduced rate. These statistics suggest that 14.5 percent of insurance premiums qualify for the tax rate reduction.

State Revenue

The bill is not expected to affect insurance premium tax revenue. It is assumed that businesses qualifying for the home office tax rate reduction under the bill are already able to pay the reduced rate under current law with approval from the Commissioner of Insurance.

State Expenditures

The bill increases workload in the Department of Regulatory Agencies for FY 2016-17 only. The department will update its regulations to accommodate the new statute. The workload increase is anticipated to require 20 hours of department staff time and can be accommodated within existing appropriations.

Effective Date

The bill was signed into law by the Governor on June 10, 2016, and takes effect January 1, 2017, assuming no referendum petition is filed. The bill applies to applications or renewal applications for home office or regional home office approval filed with the Division of Insurance on or after the bill's effective date.

State and Local Government Contacts

Information Technology Regulatory Agencies Revenue