Questions and Answers About SB 5996 and the Insurance Premium Tax

Q: What is the insurance premium tax – and who pays it?

A: Washington State (RCW 48.14.020) imposes a 2 percent tax on all direct premium written by all insurers writing insurance in the state. Every policy on every line of coverage – including Property-Casualty (P&C) lines (home, auto, commercial/business owners, inland marine, product liability, medical malpractice and others), as well as Life and Health insurance lines. Insurance companies pay these taxes, but they eventually become part of the cost of every Washington policyholder's insurance premium.

Q: Is the insurance premium tax a tax on insurance company profits?

A: No. The insurance premium tax – like the state Business & Occupations Tax, is a "gross receipts tax," imposed on all premium collected by every insurer, before expenses are deducted, regardless of whether an insurer makes a profit or suffers a loss in a tax period.

Q: How much revenue is generated by Washington's Insurance Premium Tax?

A: In 2017-19, insurance companies will pay $1.4 billion in premium taxes to Washington state. Insurers in Washington pay 12% of all gross receipts taxes paid to the state, but make up just 1.5% of the state's GDP.

Q: Do insurers pay other taxes?

A: **Yes**. On top of the 2 percent gross premium tax, insurers are required by statute to pay an additional gross premium tax *surcharge* of up to .125 percent (one-eighth of one percent) to fully and exclusively fund the Washington Office of the Insurance Commissioner – the agency that regulates all insurance companies, agents and transaction in Washington. Insurers also pay other federal, state and local taxes, as property owners and employers. And insurers join together in "Guaranty Associations" to pool funds and pay policy claims if a competing insurance company goes out of business.

Q: Why do insurance companies oppose SB 5996?

A: Insurers **support** the state's efforts to promote forest health and protect communities from wildfire. We recognize that a variety factors including population growth, changing demographics, current and past forest practices and climate change are rapidly and dramatically changing the wildland fire threat in Washington – and we are partners with the state and local communities in promoting resiliency against wildfires. **We have five important objections to SB 5996:**

1. **It unfairly shifts the societal cost of fire suppression exclusively to insurance premiums.** Does the state tax health insurance policies to pay for cancer research and chemotherapy treatments? Is there a tax exclusively on jewelry stores to pay for more police officers? ***Of course not***. Washington residents, businesses and visitors across the state pay taxes to our state's general fund to pay for societal costs, like fire and police protection. SB 5996 *shifts* those costs from all taxpayers exclusively to insurance companies and policyholders with a 25% tax increase only on auto, home, commercial and other P&C insurance premiums, to be paid into a dedicated account managed by the state Department of Natural Resources.

2. **It's harmful to WA-based companies.** Insurers pay insurance premium taxes in all 50 states, along with provisions called "retaliatory taxes" that will put Washington-based insurance companies at a competitive disadvantage with out-of-state competitors. This is harmful to Washington-based insurance businesses and employers. *(See more about **retaliatory taxes** below.)*

3. **It will tax non-property insurance coverage lines to fight wildfires.** Under SB 5996, *all* P&C companies and *all* lines of coverage – regardless of whether they benefit from wildfire prevention – will pay higher premium taxes. That potentially impacts **auto liability policies** for drivers in Ocean Shores, doctors with **medical malpractice insurance** in Renton, a school district buying **excess liability coverage** in Bellingham or a restaurant owner buying a **business owner's or umbrella policy** in Kennewick. Not all of these coverage lines are connected to, or benefit more from, wildfire prevention and forest health. But all would be impacted by the tax increase.

4. **More money + no reform = same high risk at higher costs.** SB 5996 and the $125 million in new taxes it imposes on insurance premiums includes no requirements or funding for building code or land use management changes that could prevent the loss of life and property damage from wildfires. State and local governments share the responsibility to prevent building and development practices that put families and communities in harm's way, or else we risk spending $125 million and not reducing wildfire risks.

5. **Beware of "the sweep."** There are no controls or limits included in SB 5996 on the use of the $125 million tax increase after it is put into the Wildfire Suppression and Prevention Account. At any time, the Legislature could "sweep" these funds back into the general fund for other unrelated purposes, leaving property owners paying more and getting the status quo.

Q: What are "retaliatory taxes" and why do they hurt Washington-based companies?

A: Insurance is uniquely regulated and taxed by individual states. Every state has a "retaliatory tax" provision, under which every insurance company writing business in that state pays that state's premium tax rate, or their "home state" premium tax rate – whichever is *higher*.

Today, 17 states have a lower premium tax rate than Washington. An insurer based here, providing jobs and investment here by selling insurance here and in other states, is at a disadvantage to competing insurers based elsewhere, because they must pay no less than Washington's higher tax rate everywhere they do business, while many of their competitors do not. If SB 5996 is enacted and Washington's rate increases from 2.0 percent to 2.52 percent, the number of states with lower tax rates than Washington jumps to 36 states, making it even harder for Washington-based insurers to compete across the country.

Q: What do Washington insurers propose instead of a premium tax increase?

A: Washington's general fund budget is proposed to grow to nearly **$54 billion** in the 2019-21 budget period. Insurers believe legislators should start by looking at current funds available for wildfire suppression and prevention. Insurers will pay more than $1.4 billion in state premium taxes – is there not a way to use some of those existing taxes, in combination with other taxes already paid by all residents and visitors, to fund wildfire suppression and prevention efforts that benefit the whole state? If new funds are needed, we urge legislators to find funding sources that allow equitable contributions from a broad cross-section of Washington taxpayers, not just insurance companies and policyholders.

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