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SB 5996: Bad for insurance consumers, worse for Washington-based insurers/employers

Some of Washington's leading insurance companies started – and have remained headquartered – right here in our state, providing additional jobs and investment in Washington's economy.

SB 5996 imposes a 25 percent tax increase on insurance premiums (paid ultimately by consumers) for all lines of Property & Casualty (P&C) insurance sold in our state. And while we oppose higher taxes that could affect the cost of all lines of P&C insurance for Washington families, small businesses, health care providers and others, legislators should also know that this proposed tax increase could triple (or worse) the tax burden for Washington-based insurers/employers and make it even tougher to compete with out-of-state companies.

You may have never heard of "retaliatory taxes," but every state has one. The retaliatory tax is levied against insurers from higher-tax states when they sell insurance policies in lower-tax states. When a Washington-based company sells insurance in other states, they pay these higher tax rates – and those taxes help fund schools, roads and social services or programs *in those other states* (not here).

How the retaliatory tax and SB 5996 hurt Washington-based insurers

Retaliatory taxes promote fair price competition among insurers regardless of which state they call "home" (their registered state of domicile). These laws require an insurer to pay whichever tax rate is **higher**:

- ✓ **the tax rate of the state in which they are selling policies, OR**
- ✓ **the tax rate of the state in which they are domiciled (headquartered).**

Washington's 2% insurance premium tax rate is currently **higher than the rate in 17 other states**. That means under existing tax rates, a Washington-domiciled insurance company must pay Washington's 2% tax rate in Washington *and* in any of the 17 states where the tax rate is lower than ours.

Washington's premium tax increase = more revenue…*for Idaho*.

Idaho's premium tax rate is 1.5 percent – one-half percent lower than Washington. So, a Washington-domiciled company must pay Washington's 2 percent tax rate to the state of Idaho for every dollar of premium collected on policies sold in Idaho. But competing companies from states like Illinois, Ohio, Iowa and Nebraska only pay 1.5 percent for every dollar of premium they collect in Idaho, because the premium tax rate in those states is lower than in Idaho's 1.5 percent tax rate (Illinois is just 0.5 percent).

If SB 5996 is enacted, the number of states with lower premium tax rates than Washington will **more than double to 36.** So, even more states will be able to retaliate exclusively against Washington insurers.

One Washington-based company has estimated a **3-1 ratio** of higher taxes they will pay in other states compared to what they will pay in Washington due to SB 5996. That means if the company owes $1 million in premium taxes in Washington due to SB 5996, it will now owe $3 million more in retaliatory taxes to the other states where it also sells insurance. That additional revenue will pay for programs and services in places like California, Idaho and other states, not Washington. And it puts Washington-based insurance companies at a major cost disadvantage to their competitors from other states – which costs Washington consumers more and hurts their ability to grow and provide jobs and investment right here…*at home.*

SB 5996 hurts consumers and Washington-based insurers. Please vote no.

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