

# **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	<u>\$156,650,000</u>

# 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 2<sup>nd</sup> 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.

# W/C – Pledged Revenues

Policyholders - §23-2C-3(f)(3)(A)	\$34,000,000
Self Insureds - §23-2C-3(f)(3)(B)	\$9,000,000
Personal Income Taxes - §11-21-96(a), §4-11A-18(a)	\$95,400,000
Severance Taxes - §11-13V-4	\$108,000,000
Lottery - §29-22A-10(c)(9)(A)	\$11,000,000
Estimated Annual Total	<u>257,400,000</u>

# Thank You

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