

CHAPTER 5. INSURANCE TAXES

Formerly, the major insurance tax in Oregon was the gross premium tax, which was based on premiums written for insurance policies in Oregon. This tax has been repealed and there is a five-year transition period to a corporate income tax beginning in 1997. The tax expenditures reported herein reflect the continuing effects of the transition.

During the next two biennia, the major insurance taxes are the corporation income tax, a retaliatory tax, and a transition tax, all of which are based on insurance business conducted in the state of Oregon. In addition, property and casualty insurers (both in-state and out-of-state) are subject to the fire insurance tax, which is based on premiums written for fire insurance policies in Oregon. General Fund revenue from combined insurance taxes was \$104.3 million for the 1997-99 biennium.

Corporation Income, Retaliatory, and Transition Taxes

All authorized insurers are subject to the corporation income tax, collected by the Oregon Department of Revenue. Foreign insurers (domiciled in other states) and alien insurers (domiciled in other countries) are also subject to another tax known as the retaliatory tax, collected by the Insurance Division of the Department of Consumer and Business Services. Both foreign and alien insurers are subject to precisely the same tax provisions as discussed below for foreign insurers.

The retaliatory tax measures the tax burden that would be imposed on an Oregon insurer in another state given the same premium written in that state during the year. If the foreign state's tax laws would have imposed a larger tax on a similar Oregon insurer, then the difference between the Oregon tax and the other state's tax is charged to the foreign insurer. This difference is the retaliatory tax.

Foreign insurers are also subject to a temporary tax known as the transition tax for calendar years 1997-01. Prior to 1997, foreign insurers paid a premium tax in lieu of the income tax. When insurer tax laws were changed to the current system, this temporary tax was instituted to compensate for an expected reduction in total tax revenue collected under the new law. The transition tax compares the current total tax to what would have been imposed under the old law and then collects the difference, reduced 20 percent per year until it expires December 31, 2001.

Fire Insurance Tax

Property and casualty insurers are subject to a fire insurance tax of one percent on net direct premiums written for coverage of fire risks in Oregon. This tax is in addition to the taxes described above. The purpose of the tax is to finance the Office of State Fire Marshal. This tax will continue to be paid even after the expiration of the transition tax law in 2001.

5.001 ANNUITY POLICIES EXEMPTED

Oregon Statute: 731.816
 Sunset Date: None
 Year Enacted: 1967

Total	
1999–01 Revenue Impact:	\$11,100,000
2001–03 Revenue Impact:	\$1,700,000

DESCRIPTION: Monies received from an annuity policy are exempt from the gross premium tax. There is no equivalent credit under the corporation income tax. The revenue impacts reported account for the phase-out of the gross premium tax.

PURPOSE: To recognize that annuities are not the same as insurance policies, but rather are investment instruments.

WHO BENEFITS: Life insurance companies that sell annuities, and the purchasers of annuities.

EVALUATION: ORS 731.816 was repealed. Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. [*Evaluated by the Department of Consumer and Business Services.*]

5.002 WET MARINE AND TRANSPORTATION POLICIES

Oregon Statute: 731.816
 Sunset Date: None
 Year Enacted: 1967

Total	
1999–01 Revenue Impact:	\$300,000
2001–03 Revenue Impact:	-\$50,000

DESCRIPTION: Premiums received for wet marine and transportation policies are exempt from the gross premium tax. These insurers instead pay a tax based on underwriting profits under ORS 731.824.

As described in ORS 731.194, wet marine and transportation insurance covers: (1) the insurance of ships and freight; (2) the insurance of personal property in transport between countries or transported by coast or inland waterways; and, (3) the insurance of railroads and aircraft along with their freight while engaged in interstate transport or commerce.

Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. However, this expenditure will continue under the corporation income tax, as reported in Wet Marine and Transportation Policies (1.109). The revenue impacts reported account for the phase-out of the gross premium tax.

PURPOSE: To reduce the burden of taxes on ocean marine insurers, who instead pay a tax based on underwriting profits.

WHO BENEFITS: Insurers who sell ocean marine policies and their policyholders.

IN LIEU: Ocean marine insurers currently pay taxes of about \$20,000 per year based on underwriting profits. This in lieu tax will continue, even after January 1, 1997.

EVALUATION: ORS 731.816 was repealed. Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. [*Evaluated by the Department of Consumer and Business Services.*]

5.003 EDUCATIONAL AND SCIENTIFIC INSTITUTIONS

Oregon Statute: 731.816

Sunset Date: None

Year Enacted: 1967

Total	
1999–01 Revenue Impact:	Not Available
2001–03 Revenue Impact:	Not Available

DESCRIPTION: Annuity policies issued by non-profit organizations to benefit educational and scientific institutions are exempt from the gross premium tax.

PURPOSE: Presumably to encourage and protect annuities for grants and scholarships for science and education.

WHO BENEFITS: Non-profit insurers of educational and scientific institutions, and those institutions.

EVALUATION: ORS 731.816 was repealed. Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. [*Evaluated by the Department of Consumer and Business Services.*]

5.004 ASSESSMENTS ON WORKERS' COMPENSATION

Oregon Statute: 731.832

Sunset Date: None

Year Enacted: 1965

Total	
1999–01 Revenue Impact:	\$5,900,000
2001–03 Revenue Impact:	\$2,700,000

DESCRIPTION: Workers' compensation insurers pay both the gross premium tax and an assessment that provides funding to administer the Oregon Workers' compensation system. These insurers are then entitled to a credit against the gross premium tax on workers' compensation premiums for assessments paid on workers' compensation premiums under ORS 656.612

Effective January 1, 1997, the gross premium tax is repealed and is being phased-out over a five-year period. However, this credit will continue under the corporation income tax, as reported in Assessments on Workers' Compensation (1.157). The revenue impacts reported account for the phase-out of the gross premium tax.

Insurance Taxes

PURPOSE: To reduce the burden of taxes and assessments on workers' compensation insurers, who already pay an assessment at a rate higher than the gross premium tax rate.

WHO BENEFITS: Workers' compensation insurers, employers, and employees.

EVALUATION: This expenditure achieves its purpose. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by the Oregon Occupational Safety and Health Division (OR-OSHA). OR-OSHA has worked very successfully to reduce accident rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to assure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to assure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit, 213 and 225. Small business startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 34th in 1996. Both benchmarks have been positively impacted as a result of this credit.

This credit has the effect of a partial funding of administrative program costs by the General Fund. If the credit were repealed then the cost of the workers' compensation insurance to policyholders might increase. *[Evaluated by the Department of Consumer and Business Services.]*

5.005 ASSESSMENTS PAID TO OREGON IGA: GENERAL

Oregon Statute: 734.575

Sunset Date: None

Year Enacted: 1977

Total	
1999-01 Revenue Impact:	\$400,000
2001-03 Revenue Impact:	\$0

DESCRIPTION: Property and casualty insurers pay both the gross premium tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the gross premium taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Effective January 1, 1997, the gross premium tax is repealed and is being phased-out over a five-year period. However, this credit will continue under the corporation income tax as reported in Assessments Paid to Oregon IGA: General (1.158). The revenue impacts reported reflect the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

5.006 ASSESSMENTS PAID TO OREGON LIFE AND HEALTH IGA

Oregon Statute: 734.835

Sunset Date: None

Year Enacted: 1975

	Total
1999–01 Revenue Impact:	\$10,000,000
2001–03 Revenue Impact:	\$3,100,000

DESCRIPTION: Life insurance companies pay both the gross premium tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the gross premium taxes for assessments paid to Oregon Life and Health Insurance Guaranty Association (OLHIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Effective January 1, 1997, the gross premium tax is repealed and is being phased-out over a five-year period. However, this credit will continue under the corporation income tax as reported in Assessments Paid to Oregon Life and Health IGA(1.159). The revenue impacts reported account for the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Life insurance companies and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

5.007 ASSESSMENTS PAID TO OREGON IGA: FIRE

Oregon Statute: 734.575

Sunset Date: None

Year Enacted: 1977

	Total
1999–01 Revenue Impact:	\$100,000
2001–03 Revenue Impact:	\$0

DESCRIPTION: Property and casualty insurers who write fire insurance policies pay the gross premium tax, the fire insurance premium tax, and as assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the fire insurance premium taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

OIGA assessments are first credited against the corporation income tax (Assessments Paid to Oregon IGA: General (1.158)) or the gross premium tax (Assessments Paid to Oregon IGA: General(5.005)). If there is not enough tax liability to offset the full assessment, then insurers may use the remainder of these assessments to offset against the fire insurance premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: Although the gross premium tax is repealed, the fire insurance premium tax will continue. Therefore, this credit will continue.

This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*