Information for Legislators about insurance taxes and SB 5996

Did You Know?

- **Insurers pay a large tax share.** Insurance companies (all companies and lines of insurance) contributed about $7 billion, or about 1.5 percent, to Washington's Gross Domestic Product in 2018. But the same year, they paid 12 percent - **$631 million** - of the all gross receipts taxes collected by the state.

- **More than a billion dollars per biennium.** In total, Washington insurers will pay more than **$1.4 billion** in insurance premium taxes in Washington state in 2019-21.

- **But wait, there's more.** In addition to the existing 2.0 percent premium tax (plus property taxes, fees charged to insurers for driver records, employer-required taxes, sales taxes owed on repairs to homes and vehicles and other fees), insurers are also required by law to pay a premium tax surcharge of up to .125 percent to fully and exclusively fund the operations and staff of our industry's regulator, the Office of the Insurance Commissioner – more than $60 million per biennium.

- **State tax retaliation isn't personal, but it's real.** Insurance is regulated and taxed by individual states. And, to protect their own home-based companies, every state has a "retaliatory tax" provision that charges insurers the higher of:
  - The premium tax rate set in that state, or
  - The premium tax rate in levied the insurance company's "home" (domicile) state.

- **SB 5996: More-than-double the trouble**. There are currently **17 states** with lower premium tax rates than Washington's 2.0% rate. If SB 5996 is enacted, that number will more than double. At 2.52%, Washington will have a higher premium tax rate than **36 states**, enabling any or all of those states to apply a retaliatory tax rate to Washington companies writing insurance business there.

- **That hurts Washington-based insurance companies.** With retaliatory taxes, when a Washington-based insurance company writes business in a state with a lower tax rate, they pay Washington's higher rate in that state, while their competitors do not (unless they are also based in a higher tax state). And none of those higher tax dollars paid to other states helps Washington residents in any way. They just put Washington-based insurers at competitive disadvantage, hurting jobs and investment here.

- **What's "PIP" got to do with wildfires?** SB 5996 increases the premium tax for ***all*** lines of Property & Casualty (P&C) lines of insurance. Not just personal and/or commercial **property coverage** lines that might have some perceived connection to wildfire protection. ***All*** lines would see a higher tax rate. Here are some P&C coverage lines you might not have considered that will see higher premium taxes:

  - ✓ Medical malpractice
  - ✓ Auto liability
  - ✓ Personal Injury Protection ("PIP") coverage
  - ✓ Uninsured/Underinsured Motorist coverage

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- ✓ Collision and/or Comprehensive Auto coverage
- ✓ Commercial Auto & fleet coverage
- ✓ Boat, Motorcycle and RV coverage
- ✓ Earthquake coverage
- ✓ Excess flood coverage
- ✓ Personal umbrella coverage
- ✓ Business owners “BOP” policies (all types of businesses, in all locations statewide)
- ✓ Inland marine
- ✓ Aviation insurance
- ✓ Surety bonds
- ✓ Contractor liability insurance
- ✓ Excess coverage policies (for self-insured entities like schools & local governments)
- ✓ Errors and omissions coverage
- ✓ Professional liability
- ✓ …and more!

- **Beware of shifting funds.** In effect, SB 5996 is a “budget shift,” shifting the cost of fire suppression (and adding the cost of fire prevention and forest health) from general fund revenues paid by insurers and other taxpayers to a new account paid exclusively by insurance an increased tax on insurance premiums paid by policyholders.

- **No DNR budget hole.** According to testimony presented to the Senate Ways and Means Committee by Commissioner of Public Lands Hilary Franz, the Department of Natural Resources has averaged expenditures of $154 million per year over the past five years on fire suppression. But those expenditures have been “backfilled” with general fund budget allocations every year. State revenue growth and priority budgeting have allowed the state to pay the costs of fighting wildfire with existing revenue, without creating a dedicated account or raising taxes for wildfire suppression.

Did you know property casualty insurance companies:

- ✓ Provide ongoing financial support to organizations like the National Fire Protection Association (which trains firefighters, develops/tests firefighting equipment and administers the Firewise program) and the Insurance Institute for Home & Business Safety (which designs and tests resilient building materials to resist fire and other natural disasters for safer construction)?

- ✓ Are original and ongoing supporters of NFPA’s Firewise program, which helps teach homeowners and neighborhoods to work together to build defensible, fire-resistant communities in more than 1500 sites across the nation?

- ✓ Support programs, public or private, to improve forest health and community fire prevention, but do oppose shifting the cost of these efforts from the general fund onto insurance premiums paid by Property & Casualty insurance policyholders?

Vote No on SB 5996. No insurance tax increases.

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