

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Charles J. Colgan

3. **Committee** Senate Finance

4. **Title** Insurance License Tax; Distribution of
Revenue and Increase of Motor Vehicle
Insurance License Tax

2. **Bill Number** SB 725

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the motor vehicle insurance license tax from 2.25% to 4.5%. The revenue generated by the increase would be dedicated for transportation purposes. This bill would also codify the tenth enactment of Chapters 1019 and 1044 of the Acts of Assembly of 2000 by dedicating one-third of the insurance license tax revenue under current law to transportation.

The provisions of this bill would expire on December 31 of any year in which the General Assembly appropriated any of the revenue generated by this bill for any purpose other than transportation. The effective date of this bill is not specified.

This bill was introduced at the request of the Governor.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$0	GF
2006-07	(\$138.8 million)* \$250.1 million	GF NGF
2007-08	(\$146.7 million)* \$264.3 million	GF NGF
2008-09	(\$146.7 million)* \$264.3 million	GF NGF
2009-10	(\$146.7 million)* \$264.3 million	GF NGF
2010-11	(\$146.7 million)* \$264.3 million	GF NGF
2011-12	(\$146.7 million)* \$264.3 million	GF NGF

*Represents funds appropriated from the GF to transportation purposes since 2002.

7. Budget amendment necessary: Yes.

The Governor has submitted budget amendments to implement this bill.

8. Fiscal implications:

Expenditure Impact

In order to implement this bill, the State Corporation Commission's Bureau of Insurance would be required to capture the auto premium at the new tax rate. This would require the modification of current tax forms or the development of a new tax form in addition to various systems modifications. Because many of the systems processes can be copied, however, the Bureau believes that the costs will not be significant.

Revenue Impact

This represents funds that had annually been appropriated from the General Fund to transportation purposes since 2002 pursuant to the 10th enactment of the 2000 Acts, but that would be dedicated directly to the appropriate transportation fund under this bill. The General Fund would continue to experience a negative revenue impact, which would be \$138.8 million for FY 2007 and \$146.7 million annually thereafter. In addition, the provisions of this bill that increase the motor vehicle insurance license tax would have a positive nongeneral fund revenue impact of \$111.3 million for FY 2007 and \$117.6 million annually thereafter which, when combined with the new funds dedicated to transportation funds totals \$250.1 million in FY 2007, and \$264.3 million annually thereafter.

9. Specific agency or political subdivisions affected:

State Corporation Commission

10. Technical amendment necessary: Yes.

In order to clarify the tax rate to which this bill refers, the following technical amendments are suggested:

Page 1, Line 45, after fiscal year
Insert: at the rates as of January 1, 2006

Page 1, Line 46, after fiscal year
Insert: at the rates as of January 1, 2006

Page 2, Line 77, after fiscal year
Insert: at the rates as of January 1, 2006

11. Other comments:

Current Law

Virginia imposes an annual license tax on most insurance companies doing business in the Commonwealth. This tax is equal to 2.25% of subscriber fee income or the direct gross premium income on the applicable insurance. With this current tax rate, Virginia is the forty-first lowest state in terms of average motor vehicle insurance premiums.

The tenth enactment clause of Chapters 1019 and 1044 of the Acts of Assembly of 2000 transfers one-third of the estimated revenue collected for all insurance license taxes to the Priority Transportation Fund. The proposed budget divides this revenue between debt service repayment requirements for the Federal Highway Reimbursement Anticipation Notes and the Commonwealth Mass Transit Fund.

Proposal

This bill would increase the motor vehicle insurance license tax from 2.25% to 4.5%. Even if all of this increase is passed through to policyholders, however, Virginia would still have the lowest average annual motor vehicle insurance premiums among the surrounding states. The revenue generated by the increase would be dedicated to transportation purposes.

This bill would also codify the tenth enactment of Chapters 1019 and 1044 of the Acts of Assembly of 2000 by dedicating one-third of the insurance license tax revenue under current law to transportation. The bill would also codify the manner in which this revenue should be appropriated. An amount equal to the motor vehicle insurance license tax at the current rate would be dedicated to the Priority Transportation Fund and the remainder would be dedicated to the Commonwealth Mass Transit Fund for capital purposes.

This bill specifies that all of the revenue generated by it must be used solely for transportation purposes. In order to ensure that this occurs, the bill also specifies that its provisions would expire on December 31 of any year in which the General Assembly appropriated any of the revenue generated by this bill for any purpose other than transportation.

Other Legislation

House Bill 1613 is identical to this bill.

cc : Secretary of Finance

Date: 02/04/2006 AMS
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