DEPARTMENT OF TAXATION
2013 Fiscal Impact Statement

1. Patron John C. Watkins

2. Bill Number SB 780

House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
__X__ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Commerce and Labor

4. Title Repeals the Open Enrollment Program Requirement and the Incentives

5. Summary/Purpose:

This bill would repeal the open enrollment requirement for corporations that offer a health services plan and convert into domestic insurers or stock insurers. Because the open enrollment requirement would no longer be imposed, this bill would also repeal the Insurance Premiums License Tax rate structure that applies to premium income generated by such insurers following a conversion.

Beginning with Taxable Year 2013, this bill would repeal the reduced Insurance Premiums License Tax rate currently imposed on the direct gross subscriber fee income derived from certain contracts issued by corporations that operate a health services plan, dental services plan, or optometric services plan. Instead, this bill would impose a rate of 2.25 percent on the direct subscriber fee income derived from all contracts issued by such corporations.

6. Budget amendment necessary: Yes.
ITEM: Page 1, Revenue Estimates

7. Fiscal Impact Estimates are: Available. (See Line 8.)
7b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2012-13	$0	-
2013-14	$22.59 million	GF
2014-15	$8.36 million	GF
2014-15	$7.53 million	NGF
2015-16	$11.37 million	GF
2015-16	$5.30 million	NGF
2016-17	$11.92 million	GF
2016-17	$5.56 million	NGF

2017-18	$12.48 million	GF
2017-18	$5.83 million	NGF
2018-19	$12.96 million	GF
2018-19	$6.10 million	NGF

8. Fiscal implications:

Administrative Costs

The Department considers implementation of this bill as routine, and is not requesting additional funding.

Revenue Impact

This bill would increase the Commonwealth's revenue by $22.59 million in Fiscal Year 2014, $15.89 million in Fiscal Year 2015, $16.67 million in Fiscal Year 2016, $17.48 million in Fiscal Year 2017, $18.31 million in Fiscal Year 2018, and $19.06 million in Fiscal Year 2019.

One-third of the revenue from the Insurance Premiums License Tax goes to the Priority Transportation Fund (a sub-fund of the Transportation Trust Fund) and two-thirds of the revenue from the Insurance Premiums License Tax goes to the General Fund. Because the transfer to the Priority Transportation Fund occurs in the subsequent fiscal year, this bill would increase General Fund revenue by $22.59 million in Fiscal Year 2014, $7.53 million in Fiscal Year 2015, $11.37 million in Fiscal Year 2016, $11.92 million in Fiscal Year 2017, $12.48 million in Fiscal Year 2018, and $12.96 million in Fiscal Year 2019. This bill would increase Transportation Trust Fund revenue by $7.53 million in Fiscal Year 2015, $5.30 million in Fiscal Year 2016, $5.56 million in Fiscal Year 2017, $5.83 million in Fiscal Year 2018, and $6.10 million in Fiscal Year 2019.

9. Specific agency or political subdivisions affected:

Department of Taxation
State Corporation Commission

10. Technical amendment necessary: No.

11. Other comments:

Background

The Insurance Premiums License Tax is a tax imposed on every insurance company that is engaged in the business of issuing policies or contracts for insurance and on every corporation that issues subscription contracts for insurance that are health services plans, dental services plans, or optometric services plans. The Insurance Premiums License Tax rate imposed on a corporation's direct gross subscriber fee income that is derived from subscription contracts is generally 2.25 percent. However, a reduced rate of 0.75

percent is imposed on such income that is derived from subscription contracts issued to individuals and from open enrollment contracts.

Currently, a corporation that operates a health services plan and offers an open enrollment program must continue to offer such program, directly or through a subsidiary, even if it converts into a domestic mutual insurer or stock insurer. An insurer that offers an open enrollment program subsequent to a conversion is subject to a reduced Insurance Premiums License Tax of 0.75 percent on premium income that is derived from individual accident and sickness insurance policies and open enrollment contracts. Premium income derived from other accident and sickness insurance is subject to a rate of 2.25 percent.

Federal Law

On March 23, 2010, the federal Patient Protection and Affordable Care Act ("PPACA") was signed into law. This federal bill was designed to reduce the number of Americans without health insurance and to reduce the cost of healthcare. The PPACA requires every state to establish an American Health Benefit Exchange ("Exchange") by January 1, 2014. Exchanges are marketplaces through which participating insurance companies may sell health insurance. Beginning on October 1, 2013, the PPACA will require Exchanges to have annual open enrollment periods during which individuals and small businesses may purchase private health insurance from participating insurance companies. For taxable years beginning on and after January 1, 2014, the PPACA will prohibit health insurance providers from discriminating against or charging higher rates for any individual based on pre-existing conditions.

Proposed Legislation

This bill would repeal the open enrollment requirement for corporations that offer a health services plan and convert into domestic insurers or stock insurers. Because the open enrollment requirement would no longer be imposed, this bill would also repeal the Insurance Premiums License Tax rate structure that applies to premium income generated by such insurers following a conversion.

Beginning with Taxable Year 2013, this bill would repeal the reduced Insurance Premiums License Tax rate currently imposed on the direct gross subscriber fee income derived from certain contracts issued by corporations that operate a health services plan, dental services plan, or optometric services plan. Instead this bill would impose a rate of 2.25 percent on the direct subscriber fee income derived from all contracts issued by such corporations.

Similar Bills

House Bill 1784 is similar to this bill, except that the Insurance Premiums License Tax rate change would be effective for Taxable Year 2014.

House Bill 2155 and **Senate Bill 1216** would make technical corrections related to the administration of the Insurance Premiums License Tax.

cc : Secretary of Finance

Date: 2/6/2013 KLC
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