SENATE TAXATION
EXHIBIT NO. 6
DATE 3-21-05
BILL NO. SB 513

Property Casualty Insurers Association of America

Shaping the Future of American Insurance

2600 South River Road, Des Plaines, IL 60018-3286

Statement filed with the Senate Taxation Committee on Senate Bill 513

The Property Casualty Insurers Association of America (PCI) urges the Senate Taxation Committee to amend SB 513 to delete the provisions taxing the non-premium income of insurance companies as "business income", in addition to the premium tax that all insurers pay. PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write $173.6 billion in annual premium, 39.1 percent of the nation's property/casualty insurance. 232 of our members do business in Montana, writing over $467 million in premiums annually (in 2003), 35.6% of the annual premiums written in Montana.

- Insurance companies in Montana, as in most states, already pay more than their fair share of corporate taxes. While corporations are subject to the corporate income tax on their net income, insurers are subject to a 2.75% tax on premiums written, which is much closer to a tax on gross income. Even though the premium tax rate is lower than the corporate income tax, the tax base is much larger, and therefore insurers bear a far higher relative tax burden than the rest of the business community. In 2003 insurers themselves paid more than $47 million in premium taxes in Montana, while non-insurance corporations as a whole paid just over $47 million in corporate income taxes. Insurers are willing to pay the premium tax, even though it is higher than the income tax, because it is simpler, more predictable and used in most of the U.S. Including a portion of insurer income in the income tax, however, is an unfair penalty that would exacerbate the disproportionate share of corporate taxes that insurers already pay.

- Montana's 2.75% premium tax is already substantially higher than the national average (close to 2%), and higher than that of all neighboring states except Idaho (also 2.75%). This high rate makes insurance more expensive for all Montana citizens. Taxing non-premium income under the corporate income tax will only increase that cost, with its resultant drag on economic growth and job creation.

- Taxing insurers' non-premium income would also make Montana domestic insurers less competitive in providing insurance in other states. All states except Hawaii impose a retaliatory tax. Montana's retaliatory tax in essence taxes a company domiciled in another state at the same rate that its home state taxes a Montana insurer. Since most states already have lower premium tax rates than Montana, Montana domestic insurers providing insurance in other states are already penalized, making them less competitive. Imposing this additional tax will do nothing to make Montana insurers more competitive in Montana, while making them even less competitive in other states.

- We are aware of no allegations that insurers doing business in Montana are engaged in sheltering income of non-insurance corporations. For the reasons mentioned above, it is generally not an advantage to be taxed as an insurer.

In order to hold down the cost of insurance for Montana policyholders and to keep Montana companies competitive when writing business in other states, PCI urges the Committee to remove the provisions taxing non-premium income under the income tax from SB 513.

March 22, 2005

Telephone: 847-297-7800 Facsimile: 847-297-5064 Web: www.pciaa.net