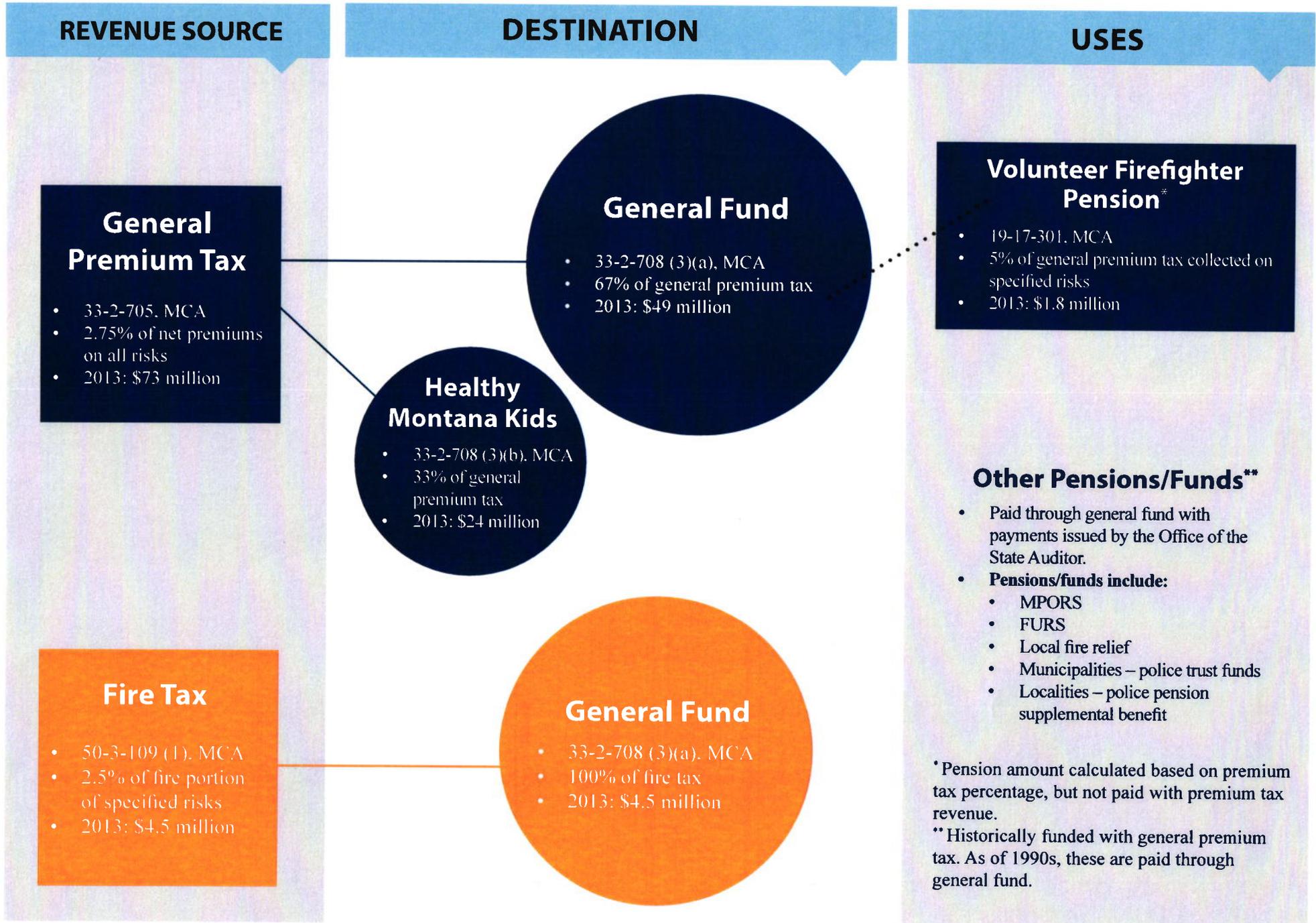


INSURANCE TAXES: SOURCES AND DISTRIBUTION



PRESUMPTIVE DISEASE COMPENSATION FUND FLOWCHART SUMMARY

LC0470 provides presumptive disease compensation to firefighters. The bill establishes a presumptive disease compensation fund (Fund) from a portion of the "fire taxes" collected by the Office of the State Auditor, Commissioner of Securities and Insurance (CSI). Interested parties have inquired what effect, if any, LC0470 will have on the Volunteer Firefighters' Pension (Pension) contributions. In short, LC470 would not affect Pension contributions because the two would rely upon separate funding sources.

Revenue Sources

The CSI collects two types of tax relevant to this discussion:

1. General premium tax: The CSI collects a 2.75% general premium tax on insurance premiums pursuant to Mont. Code Ann. § 33-2-705. This tax is assessed on nearly all lines and carriers.
 - *Pension contributions are based upon a percentage of general premium tax for certain fire-related lines.*
2. Fire tax: The CSI collects a separate 2.5% tax (fire tax) over and above the general premium tax pursuant to Mont. Code Ann. § 50-3-109. This tax is assessed on the portion of premium attributable to fire risk. For example, if 20% of premium charged on a homeowners policy accounts for risk of loss due to fire, then the 2.5% fire tax is assessed on that 20% (i.e. 2.5% tax x 20% of premium = fire tax equal to 0.5% of premium).
 - *The Fund would be paid for by a portion of fire taxes collected.*

Tax Uses

Premium tax: The majority (67%) of premium taxes goes to the general fund; 33% is diverted to the Healthy Montana Kids special revenue account.

- Pension: Pursuant to Mont. Code Ann. § 19-17-301, a sum equivalent to 5% of the general premium tax for fire-related lines listed in Mont. Code Ann. § 50-3-109(2) is paid to the Pension. This money is paid out of the general fund, but the calculation is based on general premium tax revenue.
 - The fire tax is assessed on fire-related lines of insurance under § 50-3-109(2), and the Pension calculation is based on these same lines. However, this does NOT mean the Pension is funded with fire tax dollars; the Pension is funded out of the general fund based on general premium tax dollars. Both calculations are merely based upon the same lines of business.
- Other pensions: Decades ago, other pensions (including FURS and MPORS) were funded through general premium taxes and paid by the CSI. This changed in the late 1990's, and the money now comes from the general fund. The CSI still technically writes the checks for these payments, but using general fund money; thus, these pensions are not linked to premium or fire taxes.

Fire tax: All fire taxes collected go directly to the general fund. No fire tax money goes to any pension, fund, or special account.