Individual State Agency Fiscal Note

Bill Number: 1646 HB	Title: Variable insurance tax rate	Agency: 160-Office of Insurance Commissioner

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT		FY 2024	FY 2025	2023-25	2025-27	2027-29
General Fund-State	001-1	(22,000,000)	(22,000,000)	(44,000,000)	(44,000,000)	(44,000,000)
	Total $	(22,000,000)	(22,000,000)	(44,000,000)	(44,000,000)	(44,000,000)

Estimated Operating Expenditures from:
NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1(3)(b) requires the Office of Insurance Commissioner (OIC) to annually adjust the tax rate applied to insurance premiums by calculating the three-year average of the year-over-year percentage change in insurance premium taxes collected. The three-year period consists of the three tax years immediately preceding the current tax year in order to calculate the rate for the upcoming tax year. The tax rate must be reduced by the three-year average revenue change.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

This bill applies to property/casualty (P/C) and life/disability (L/D) insurers and to surplus line brokers (SLB) only. Captive insurer and health carrier insurance premium taxes are not impacted.

Section 1(3)(b) requires the Office of Insurance Commissioner (OIC) to annually adjust the tax rate applied to insurance premiums by calculating the three-year average of the year-over-year percentage change in insurance premium taxes collected. The three-year period consists of the three tax years immediately preceding the current tax year in order to calculate the rate for the upcoming tax year. The tax rate must be reduced by the three-year average revenue change.

For purposes of this fiscal note, it is assumed that the tax rate adjustment will implement beginning with tax year 2023 and that the tax rate adjustment will remain the same each year. Based on P/C, L/D and SLB taxes collected for tax year 2019 through 2021, the three-year average revenue change is +5.1%, resulting in an adjusted tax rate of 1.90% (2% tax less .102% (2% x 5.1% positive revenue change)) for P/C and L/D insurers and SLBs. Based on tax year 2021 tax revenue, this would result in a General Fund reduction of approximately $22 million ($393,189,160 P&C/L&D taxes + 36,195,048 SLB taxes x 5.1% reduction) each year beginning in FY2024.

Please note: Due to the retaliatory provision in the tax law, a reduction of Washington's insurance premium tax rate may or may not result in a lower tax obligation for property/casualty or life/disability insurers.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.