TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 82 - HB 72

March 16, 2015

SUMMARY OF BILL: Requires only an insurer's principal place of business, and not the primary executive, administrative, and home offices, be located in the state. Authorizes the Commissioner of the Department of Commerce and Insurance (TDCI) to waive this requirement for any company. Requires any person holding an insurance policy in an unlicensed company to pay premium taxes that would be applicable to the company, were it licensed as a surplus lines agent. Except for certain instances of delinquency in which good cause is shown, requires gross premium taxes be reported and payable electronically on forms approved by the Commissioner. Requires insurance companies report gross premiums taxes quarterly, rather than annually. Requires all surplus lines insurers to, quarterly, rather than annually, file a report of all surplus lines transactions. Reduces the frequency of which a licensed health maintenance organization (HMO) must be examined by the Commissioner, from once in every four years to once in every five years.

ESTIMATED FISCAL IMPACT:

NOT SIGNIFICANT

Assumptions:

- Currently, any industrial insured that self-reports premiums on a policy underwritten by an unlicensed company, except for certain insurance policies (e.g. auto, surety or workers' compensation), is required to pay taxes on such premiums that would be collected by TDCI were the company licensed to do business in this state and paid the applicable premiums tax. This legislation codifies TDCI's current process for collecting premium taxes from insureds that hold policies with unlicensed insurers.
- Based on information provided by TDCI, for the past two years, it has levied the surplus lines tax rate against industrial insureds which self-report premiums paid to unlicensed insurers.
- Pursuant to Tenn. Code Ann. § 56-14-113, such industrial insureds are required to pay to TDCI a sum based on the total gross premiums charged, less any return premiums. Where the insurance covers an insured whose home state is this state, the sum payable is computed based on an amount equal to five percent (5%) on gross premiums.
- In FY12-13, five industrial insureds reported premiums of $1,090,891 and paid premium taxes of $30,229. In FY13-14, three industrial insureds reported premiums of $901,648 and paid premium taxes of $58,880.
- This legislation is not estimated to increase the amount of premium tax revenue received from insureds which hold insurance in unlicensed insurers, as any such insureds that do

not currently self-report as required by TDCI, are not expected to begin reporting and paying taxes on premiums due to this legislation. TDCI does not have the ability to identify insureds that hold policies in unlicensed insurers.

- Removing certain domicile requirements for the primary, executive, administrative and home offices held by domiciled insurance providers will have no impact as to any applicable tax currently levied against such businesses.
- Based on information provided by TDCI, making gross premium tax payments due quarterly, rather than annually, will align such payments to the quarterly system already utilized by the majority of insurance companies.
- Based on information provided by TDCI, changing the HMO examination cycle will align it more consistently with national standards.

IMPACT TO COMMERCE:

Other Fiscal Impact - Domiciled insurers may elect to move certain offices out-of-state for financially advantageous reasons. To the extent that such an instance occurs is unknown. Any such decision to move offices will be based upon a business's ability to reduce expenditures; however, due to multiple unknown factors, any reduction in expenditures or jobs is unable to be determined, but is considered to be positive to such businesses.

Assumptions:

- This legislation may result in domiciled insurers relocating primary, executive, administrative and home offices outside of this state.
- It is assumed that domiciled insurers may move certain offices outside the state as financially advantageous reasons persist.
- Due to multiple unknown factors, including the number of companies that will elect to move offices outside of the state, the number of jobs that will transfer out of state, and the specific financial incentives that would provoke any domiciled insurer to transfer its offices outside the state, any reduction in business expenses to applicable businesses is unable to be determined, but is considered positive to such businesses.
- To the extent that offices will be moved out of this state, and subsequently, the number of jobs that transfer, is unknown. Any impact on jobs in this state is unable to be determined.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Jeffrey L. Spalding, Executive Director

/jdb