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ResearchReport

# Insurance Premiums Tax

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June 26, 2020 | 2020-R-0166

## Issue

Provide an overview of Connecticut's insurance premiums tax. This report updates OLR Report 2015-R-0260.

## Summary

Connecticut imposes a tax on insurance premiums and health care center subscription charges, known as the insurance premiums tax. The tax rate, base, and other terms vary based on the entity selling the policy and the entity responsible for paying the tax. Table 1 provides a brief overview of the insurance premiums tax structure.

The tax is levied at a rate of 1.50% for admitted insurers (i.e., those authorized to operate in Connecticut) and health care centers (i.e., health maintenance organizations, or HMOs). Admitted insurers include both domestic insurers, which are incorporated in Connecticut, and foreign insurers, which are incorporated in another state or country. Policies procured from nonadmitted (i.e., unauthorized) insurers, including policies purchased through surplus lines brokers, are taxed at 4.00%. The law provides for several exemptions and credits, depending on the type of taxpayer.

State law establishes a schedule for making payments and requires admitted insurers and healthcare centers to make estimated premiums tax payments. It also establishes penalties for nonpayment. The tax is administered by the Department of Revenue Services (DRS), except in the case of surplus lines brokers, who must remit payment to the Insurance Department.

**Table 1: Insurance Premiums Tax at a Glance**

| | *Admitted Insurance* | | *Nonadmitted Insurance* | | *Health Care Centers* |
|---|---|---|---|---|---|
| **Taxpayer** | **Domestic Insurers** | **Foreign Insurers** | **Surplus Lines Brokers** | **Individual Insured** | |
| Tax Base | Net direct premiums | | Gross premiums charged to insureds for whom Connecticut is their home state | | Net direct subscriber charges |
| Tax Rate | 1.50% | 1.50% | 4.00% | 4.00% | 1.50% |
| Exemptions | None | Ocean marine insurance premiums | Polices sold to the state, a town, or a special taxing district | Individual life or disability, wet marine, and transportation insurance | Subscriber charges paid for specified health care plans |
| Credits | Credits for various charitable, business, and economic development purposes; Local domestic insurance companies are eligible for additional credits | | None | Urban and Industrial Site Reinvestment and Second Insurance Reinvestment Fund credits | Credits for various charitable, business, and economic development purposes |
| Administrator | DRS | DRS | Insurance Department | DRS | DRS |

# Tax Base and Rate

## *Admitted Insurers*

Admitted insurers, both foreign and domestic, must pay a 1.50% tax on their net direct premiums. "Net direct premiums" means all premiums received from policyholders and applicants (except for annuity premiums and premiums received for reinsurances assumed from other insurance companies) less (1) returned premiums, including cancellations, and (2) dividends paid to policyholders on direct business, excluding any dividends paid on account of the ownership of stock (CGS §12-201, -202, & -210).

For foreign insurance companies, ocean marine insurance premiums are exempt; there are no exemptions for domestic insurance companies.

## *Nonadmitted Insurers*

State law imposes a 4.00% premium receipts tax on the gross premiums paid for nonadmitted insurance policies where Connecticut is the insured's home state (see below). The tax is generally imposed on the individual who procures the policy, except for policies procured through state-licensed surplus lines brokers, in which case the broker pays the tax (CGS § 38a-277 & -743). (Domestic surplus lines insurers are taxed as nonadmitted insurers (CGS § 38a-271a(c)).) The law exempts individual life or disability, wet marine, and transportation insurance from the tax. It also exempts policies sold through surplus lines brokers to the state, a municipality, or a special taxing district.

*Home State.* Connecticut's tax on nonadmitted insurers conforms to the federal Nonadmitted and Reinsurance Reform Act of 2010. Under federal and state law, an insured's "home state" is the state where an insured maintains its principal place of business or residence. If the insured risk is located entirely outside of the state in which the insured resides or maintains its principal place of business, the "home state" is the state to which the greatest percentage of the insured's taxable premium is allocated. In the case of an affiliated group insured on a single nonadmitted insurance contract, the "home state" is the state to which the largest percentage of premium is allocated.

## *Health Care Centers*

Health care centers must pay a 1.50% tax on the direct subscriber charges they receive within a calendar year for any new or renewal contracts or policies, less any returned charges (i.e., total net direct subscriber charges) (CGS § 12-202a). The tax does not apply to new or renewal contracts or policies providing health care coverage:

1. to state employees or retirees;
2. to Medicare patients, Medicaid recipients, or beneficiaries under the HUSKY Health or HUSKY Plus program;
3. through the state teachers' retirement system; or
4. through the comptroller to municipal employees, nonprofit employees, individuals eligible for a health coverage tax credit, community action agency employees, or retirees.

# Tax Credits

Admitted insurers, both domestic and foreign, and health care centers may qualify for a number of tax credits for various charitable, business, and economic development purposes, up to statutory caps (see below). OLR's "Guide to Business Tax Credits" describes these credits (see 2017-R-0287 for the most recent version). Surplus lines brokers qualify for urban and industrial site reinvestment credits and Insurance Reinvestment Fund and Invest CT (i.e., Second Insurance Reinvestment Fund) credits; there are no tax credits available to those who independently procure policies from nonadmitted insurers.

Additionally, certain "local domestic insurance companies" qualify for nonrefundable insurance premiums tax credits equal to 80% of Insurance Department charges they paid in the income year

(CGS §12-202). Local domestic insurance companies are those for which 50% of the premiums they collected in the prior calendar year were for property or risks in Connecticut.

### *Credit Caps*

State law caps the amount by which insurance premiums taxpayers can reduce their liability with tax credits. Specifically, the law (1) classifies tax credits into three types, (2) specifies the order in which such taxpayers must apply each type to reduce their tax liability, and (3) establishes the maximum amount of liability that they can reduce by applying one or more of the types (CGS § 12-211a).

By law, (1) type one credits are film and digital media production, entertainment infrastructure, and digital animation credits; (2) type two credits are Second Insurance Reinvestment Fund credits; and (3) type three credits are all other credits. Table 2 shows the order and reduction schedule.

**Table 2: Order and Reduction Schedule for Claiming Insurance Premium Tax Credits**

| Credit Types Claimed | Order of Application | Maximum Reduction in Tax Liability |
|---|---|---|
| Type 3 | Not Applicable | 30% |
| Types 1 & 3 | 1st - Type 3<br>2nd - Type 1 | Type 3 = 30%<br>Sum of both types = 55% |
| Types 2 & 3 | 1st - Type 3<br>2nd - Type 2 | Type 3 = 30%<br>Sum of both types = 70% |
| Types 1, 2, & 3 | 1st - Type 3<br>2nd - Type 1<br>3rd - Type 2 | Type 3 = 30%<br>Types 1 & 3 = 55%<br>Sum of all types = 70% |
| Type 1 & 2 | 1st - Type 1<br>2nd - Type 2 | Type 1= 55%<br>Sum of both types = 70% |

## Payment

### *Schedule*

Admitted insurers and health care centers must file an annual insurance premiums tax return with DRS and pay the required tax by March 1 of each year. They must also make estimated premiums tax payments on a quarterly basis. Each payment must equal a specified portion of its required annual payment, as follows: (1) 30%, due March 15; (2) 30%, due June 15, (3) 20%, due September 15; and (4) 20% due December 15. The required annual payment is the lesser of (1)

100% of the tax due the previous year or (2) 90% of the tax for the current year, after applying offsets and credits (CGS § 12-204c).

Surplus lines brokers and individuals who procure nonadmitted insurance policies must file quarterly tax returns and remit payment for the premiums charged each quarter on the 15th day of February, May, August, and November. Surplus lines brokers file the returns with the insurance commissioner, and all others file with DRS (CGS §§ 38a-277(g)(3) & -743(c)(3)).

### *Penalties for Nonpayment*

State law imposes a late penalty equal to (1) the lesser of 10% of the tax due or $50 for admitted insurers and health care centers, or (2) 10% of the tax due for nonadmitted insurance. Past due premiums taxes, including estimated payments, and late penalties gather interest at 1% per month or partial month after the original due date.

## Retaliatory Tax

Connecticut law provides that when another state or foreign country imposes taxes, fees, fines, deposit requirements, or other obligations, restrictions, or prohibitions against Connecticut insurance companies doing business in that jurisdiction that exceed amounts Connecticut imposes on that jurisdiction's insurance companies operating here, Connecticut imposes an equivalent retaliatory charge or restriction on the other jurisdiction's insurance companies (CGS § 12-211).

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