



**Colorado  
Legislative  
Council  
Staff**

**SB16-165**

**FISCAL NOTE**

**FISCAL IMPACT:**  State  Local  Statutory Public Entity  Conditional  No Fiscal Impact

**Drafting Number:** LLS 16-1123  
**Prime Sponsor(s):** Sen. Grantham  
Rep. Young

**Date:** March 24, 2016  
**Bill Status:** Senate Finance  
**Fiscal Analyst:** Greg Sobetski (303-866-4105)

**BILL TOPIC:** HOME OR REGIONAL OFFICE DEFINITION INSURANCE PREMIUM TAX

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Expenditures	Workload decrease.	
<b>Appropriation Required:</b> None.		
<b>Future Year Impacts:</b> Ongoing workload decrease.		

**Summary of Legislation**

Effective January 1, 2017, the bill expands the criteria that an insurance company may satisfy in order to qualify for a reduced insurance premium tax rate. Specifically, it removes the requirement that companies that maintain significant direct insurance operations and perform operational functions in Colorado be approved by the Commissioner of Insurance to qualify for the lower insurance premium tax paid by companies with home offices or regional home offices in Colorado.

**Background**

Under current law, insurance premiums are taxed at a rate of 2.0 percent. Insurance companies that perform certain business functions in the state may qualify as having a Colorado home office or regional home office, in which case their premiums are taxed at a rate of 1.0 percent. These include:

- actuarial functions;
- medical functions;
- legal functions;
- approval or rejection of applications;
- issuance of policies, information, and service;
- advertising and publications;
- public relations; and
- hiring, testing, and training of sales and service forces.

Companies that perform these functions in Colorado for all states in which they operate are considered to have a home office, while companies that perform these functions in Colorado for at least three states are considered to have a regional home office.

Under current law, companies that maintain significant direct insurance operations and perform operational functions in Colorado may qualify for the home office or regional home office tax rate reduction, provided that they annually apply and receive approval from the Insurance Commissioner.

For tax year 2015, the state collected \$247.6 million in insurance premium tax, of which \$19.4 million was collected from insurance companies qualifying for the reduced rate. These statistics suggest that 14.5 percent of insurance premiums qualify for the tax rate reduction.

### **State Revenue**

The bill is not expected to affect insurance premium tax revenue. It is assumed that businesses qualifying for the home office tax rate reduction under the bill are already able to pay the reduced rate under current law with approval from the Commissioner of Insurance.

### **State Expenditures**

Beginning in FY 2016-17, the bill reduces workload for the Division of Insurance in the Department of Regulatory Agencies. The division will no longer be responsible for review and approval of annual applications for the insurance premium tax rate reduction submitted by companies maintaining significant direct insurance operations in Colorado. Because only a small number of firms submit applications each year, the workload reduction is not anticipated to require a decrease in appropriations.

### **Effective Date**

The bill takes effect January 1, 2017, if no referendum petition is filed, and applies to applications or renewal applications for home office or regional home office approval filed with the Division of Insurance on or after the bill's effective date.

### **State and Local Government Contacts**

Information Technology

Regulatory Agencies

Revenue