

STAND. COM. REP. NO.

2774

Honolulu, Hawaii

FEB 29 2008

RE: S.B. No. 2315  
S.D. 2

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fourth State Legislature  
Regular Session of 2008  
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred S.B. No. 2315, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO INSURANCE,"

begs leave to report as follows:

The purpose of this measure is to designate a reciprocal insurer and its attorney-in-fact as a single entity.

The measure also exempts reciprocal insurers and their attorney-in-fact from the general excise tax and clarifies that the general excise tax exemption applies to insurers and not insurance companies.

The Department of Commerce and Consumer Affairs and Medical Insurance Exchange of California submitted testimony in support of this measure. The Department of Taxation and Tax Foundation of Hawaii submitted comments.

A reciprocal insurer is an insurance company that provides insurance through unincorporated associations of individuals, partnerships, or corporations called "subscribers" and is owned by its policyholders. The reciprocal insurer operates through an attorney-in-fact that is common to all subscribers.

While the reciprocal insurer and attorney-in-fact are virtually indistinguishable, both are subject to the general excise tax. This measure clarifies that the reciprocal insurer and its attorney-in-fact are a single entity, and except for the

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general excise tax, is subject to all taxes imposed upon corporations or others doing business in the State, except for taxes on income or gross receipts derived from its principal business as attorney-in-fact.

Your Committee finds that this measure will resolve an inequity in the current application of state tax law and will have a positive effect on the premium rates paid by reciprocal insurer subscribers, many of whom are private physicians.

Upon further consideration, your Committee has amended this measure by making technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2315, S.D. 1, as amended herein, and recommends that it pass Third Reading in the form attached hereto as S.B. No. 2315, S.D. 2.

Respectfully submitted on  
behalf of the members of the  
Committee on Ways and Means,

  
ROSALYN H. BAKER, Chair



