

Honolulu, Hawaii

Feb 26, 2010

RE: H.B. No. 2851
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Sir:

Your Committee on Finance, to which was referred H.B. No. 2851 entitled:

"A BILL FOR AN ACT RELATING TO INSURANCE,"

begs leave to report as follows:

The purpose of this bill is to temporarily increase taxes on insurance premiums.

Specifically, this bill increases until June 30, 2015, the tax rates payable by insurers for:

- (1) Life insurance from 2.75 to 3.437 percent;
- (2) Ocean marine insurance from .8775 to 1.0968 percent;
- (3) Real property title insurance from 4.265 to 5.331 percent; and
- (4) Other authorized insurers from 4.265 to 5.331 percent.

This measure also increases the taxes:

- (1) Payable by insureds, for insurance contracts from insurers who are not authorized to transact business in Hawaii from 4.68 to 5.85 percent of the gross premiums charged for the insurance, less any return premiums,



except for life insurance, accident and health or sickness insurance, or annuities;

- (2) Payable by surplus lines brokers, for surplus lines insurance from 4.68 to 5.85 percent on gross premiums, less return premiums; and
- (3) Payable by captive insurance companies, for certain types of insurance from:
 - (A) .25 to .3125 percent on gross premiums up to \$25,000,000;
 - (B) .15 to .1875 percent on gross premiums of more than \$25,000,000 to \$50,000,000;
 - (C) .05 to .0625 percent on gross premiums of more than \$50,000,000 to \$250,000,000; and
 - (D) No taxes to .05 percent on gross premiums of more than \$250,000,000.

In addition, this bill repeals the cap of \$200,000 on the annual maximum amount of taxes payable by a captive insurance company.

The Department of Commerce and Consumer Affairs; Hawaii Captive Insurance Council; Beecher Carlson; Hawaii Insurers Council; American Council of Life Insurers; Alliance Captive Insurance Services LLC; Workers' Assurance of Hawaii, Inc.; Willis Management (Hawaii); ValleyCrest Companies & Plumeria Insurance Companies; Covenant Care; Safeway Inc.; Cap Insurance Co., Inc.; KMH LLP; Public Storage; MedAmerica Mutual Risk Retention Group, Inc.; Kyo-ya Management Company, Ltd.; Strategic Risk Solutions, Inc. (West); Worldwide Risk Insurance, Inc.; Paradigm Indemnity Corp.; Cast & Crew Payroll, LLC; Aon Insurance Managers (USA), Inc.; Covenant Reinsurance Company; F.L. Insurance Corporation; State Farm Insurance Companies; Marquis Insurance Corporation; Pacific Guardian Life Insurance Company, Ltd.; Owlco Indemnity Limited; Gregory J. Burden Trust (dated July 26, 2002); National Association of Insurance and Financial Advisors Hawaii; Kaiser Permanente Hawaii; Lokahi Assurance, Ltd.; Property Casualty Insurers Association of America; Marsh Management Services Inc.; and Bank of Hawaii testified in opposition to this bill. The Tax Foundation of Hawaii offered comments.



Your Committee has been convinced from testimony received, that an increase in the tax on captive insurance companies would harm the captive insurance industry in Hawaii. Thus, your Committee has amended the bill by deleting the tax increases on captive insurance companies.

Your Committee also notes that the premiums for permanent life insurance contracts issued in the past are set and cannot be increased to pass on an additional tax. Accordingly, your Committee has amended the bill to provide a reasonable and equitable differential rate structure, limiting the application of the tax increase payable by insurers on gross premiums for life insurance contracts to those that take effect on or after July 1, 2010. It is your Committee's intent that when the bill sunsets on June 30, 2015, all life insurance contracts be once again subject to the 2.75 percent tax rate, even if a contract was entered into on or after July 1, 2010, and on or before June 30, 2015.

Your Committee has further amended this bill by:

- (1) Changing all the increased amounts of tax percentages to unspecified amounts, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2851, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2851, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Finance,


MARCUS R. OSHIRO, Chair



