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**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 2851
RELATING TO INSURANCE**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 17, 2010

TIME: 1:30PM

ROOM: 308

This measure temporarily increases the insurance gross premiums tax from July 1, 2010 until June 30, 2015 and removes the ceiling on the tax of captive insurance companies.

The Department of Taxation (Department) **opposes the tax increase** contained in this measure and recommends that this measure be held.

A TAX INCREASE—The Department opposes this tax increase. The Department does not support tax increases, especially increases that will simply increase the costs to consumers at a time when taxpayers cannot afford such increases.

REVENUE IMPACT – This bill would increase general fund revenues by approximately \$19.1 million for fiscal year 2011 and \$25.5 million for fiscal year 2012 through fiscal year 2015.

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 16, 2010 7:18 PM
To: FINTestimony
Cc: pkezirian@cap-mpt.com
Subject: Testimony for HB2851 on 2/17/2010 1:30:00 PM
Attachments: HCICTaxTestimony.10.doc

Testimony for FIN 2/17/2010 1:30:00 PM HB2851

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Peter Kezirian
Organization: Cooperative of American Physicians Insurance Company, Inc.
Address: 333 South Hope Street Los Angeles, CA 90071
Phone: 213 473-8740
E-mail: pkezirian@cap-mpt.com
Submitted on: 2/16/2010

Comments:



COOPERATIVE OF
AMERICAN PHYSICIANS

Memorandum

Date: February 17, 2010

To: Calvin Say, Speaker of the House of Representatives, State of Hawaii

From: Peter Kezirian – General Counsel, Cooperative of American Physicians Insurance Company, Inc.

Subject: Taxing of Captive Premiums

Summary

The Cooperative of American Physicians Insurance Company, Inc. (CAPIC) is pleased to call the State of Hawaii its domicile. Hawaii has a tradition of careful regulation, a solid understanding of insurance and a willingness to help craft specific and targeted reinsurance policies to meet the needs of its owners and insureds. Hawaii's success has prompted other states to mimic this approach, and thus provide owners with more, good domicile choices than in the past. As such, the issue of premium taxes will become a bigger determining factor in the choice of insurance domiciles, not only for us, but for current and future captive owners. A premium tax increase at this time will hamper Hawaii's competitive position vis-à-vis other states and may compromise its position as the most desirable venue in the western United States and Asia.

Discussion

Unlike other states, Hawaii always emphasized the quality of its regulatory oversight, rather than its cost structure. To its owners, Hawaii was a safe insurance jurisdiction, responsive to the industry's needs, but always careful to make certain that money was present to pay claims. CAPIC has always said that Hawaii understands the purpose of insurance and regulates the captive industry as such.

CAPIC also understands that the captive industry plays a role in the Hawaii economy. CAPIC retains a Hawaiian fund manager and legal counsel to handle many of its matters in this state. Every year, it conducts a two-day board meeting that includes directors, executive staff, and spouses. We host a dinner for our consultants and clients, as well as,

partaking of the cultural and ecological treasures. If the premium taxes were to increase, CAPIC would offset these higher costs among its administrative expenditures. Issues such as board size, meeting length, and intra-island client development would all be re-examined to compensate for the augmented tax load. In addition, as part of its fiduciary obligation, CAPIC would have to investigate those jurisdictions that currently do not charge any premium taxes. Currently, we pay less than \$10,000 per year and have been growing our lines of business. If the tax load were to increase, the premium tax issue would become a larger business issue.

CAPIC believes that captive domiciles need to be larger so as to attract the appropriate regulatory, financial and industry talent. Hawaii's size means that it has a deep pool of people to oversee the industry, serve as captive managers and represent owners. If the number of captives in Hawaii were to shrink, this reservoir of resources may dry up and threaten the industry as a whole. We hope that the State of Hawaii appreciates this resource and will not take any action to prompt the contraction of the captive count in the state.

CAPIC is proud to have been Hawaii's 100th captive and have enjoyed our seven years in this jurisdiction. We appreciate the revenue pressure on the state treasury and have continued to visit the islands as always. However, we also must be conscious of increased costs and any change in the premium tax would be deemed unhelpful to us and to captive industry as a whole.

Thank you for your attention to this matter and please call me at (213) 473-8740 if you have any questions or concerns.