STAND. COM. REP. NO. 148

Honolulu, Hawaii

FEB 0 8 2019

RE: S.B. No. 19

S.D. 1

Honorable Ronald D. Kouchi President of the Senate Thirtieth State Legislature Regular Session of 2019 State of Hawaii

Sir:

Your Committee on Commerce, Consumer Protection, and Health, to which was referred S.B. No. 19 entitled:

"A BILL FOR AN ACT RELATING TO SURPLUS LINES,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the calculation of surplus lines insurance premium tax to tax the entirety of the premium using the rate established by state law regardless of the location of risk.

Your Committee received testimony in support of this measure from the Wholesale and Specialty Insurance Association and American Property Casualty Insurance Association. Your Committee received comments on this measure from the Department of Commerce and Consumer Affairs.

Your Committee finds that surplus lines insurance premium tax is collected differently than standard insurance premium tax for admitted lines. In 2010, Congress passed the Nonadmitted and Reinsurance Reform Act as part of the Dodd-Frank Act, which establishes the insured consumer's "home state" as the one and only jurisdiction to regulate and tax surplus lines transactions, even if parts of the risk are located in other states. Since the Nonadmitted and Reinsurance Reform Act was passed, forty-six states have amended their laws to streamline the taxation of surplus lines premiums on multi-state policies, eliminating time-

consuming computation, reporting, allocation, and reconciliation of state-by-state tax monies that ultimately are all retained by the home state.

Your Committee further finds that under existing law, risks that are located outside of Hawaii are taxed on the rate based on where the risk is located, rather than exclusively at the Hawaii tax rate of 4.68 percent. This results in unnecessary regulatory burdens for brokers, requires a different allocation of risk when a consumer resides or operates a business in multiple states, and adds costs of compliance, which ultimately impact the consumer. This measure adopts the provisions of the Nonadmitted and Reinsurance Reform Act, which will reduce regulatory burdens on local surplus lines brokers, simplify compliance procedures, increase nationwide uniformity in surplus lines taxation, and increase premium tax revenue for the State.

Your Committee has amended this measure by changing its effective date to October 1, 2019.

As affirmed by the record of votes of the members of your Committee on Commerce, Consumer Protection, and Health that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 19, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 19, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on behalf of the members of the Committee on Commerce, Consumer Protection, and Health,

Rosaly H. Bak ROSALYN H. BAKER, Chair

## The Senate Thirtieth Legislature State of Hawai'i

## Record of Votes Committee on Commerce, Consumer Protection, and Health CPH

Bill / Resolution No.:*			Da	Date:	
SRIA	SB19 CPH, WAM			2/5/19	
The Committee is reconsidering its previous decision on this measure.					
If so, then the previous decision was to:					
The Recommendation is:					
Pass, unamended Pass, with amendments Hold Recommit 2312 2311 2310 2313					
Members		Aye	Aye (WR)	Nay	Excused
BAKER, Rosalyn H. (C)		<b>/</b>			
CHANG, Stanley (VC)			-		
KEOHOKALOLE, Jarrett		V			
NISHIHARA, Clarence K.					
RUDERMAN, Russell E.		V			
THIELEN, Laura H.					
FEVELLA, Kurt				<u> </u>	V
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TOTAL		6			1
Recommendation:  Adopted  Not Adopted					
Chair's or Designee's Signature:					
<b>Distribution:</b> Original File with Committee Re	Yellow Report Clerk's Office D		Pink Prafting Agency	Goldenrod cy Committee File Copy	

\*Only one measure per Record of Votes