



Premium Taxes

Requested Information on Premium Taxes and Related Tax Expenditures

BACKGROUND

This special examination of premium taxes was conducted at the request of the Senate Appropriations Committee.

Premium Taxes

Premium taxes are imposed as a percentage of insurance premiums collected on individuals, property, or risks in the state. States typically impose a premium tax instead of an income tax on insurance companies. Georgia imposes three taxes on premiums:

- **State premium tax** – Admitted companies (authorized by OCI to sell in Georgia) pay a tax of 2.25% of premiums. Non-admitted insurance (purchased from companies not authorized by OCI) is subject to a 4.0% tax.
- **Retaliatory tax** – Out-of-state insurance companies pay retaliatory tax if the company's home state imposes a higher tax than Georgia's tax on similar insurers.
- **Local premium tax** – Admitted companies that sell only life, sickness, and accident insurance pay a tax of 1.0% of premiums. Admitted property and casualty companies pay a 2.5% tax.

Premium Tax Expenditures

Tax expenditures are statutory provisions that reduce tax liability. There are four types of tax expenditures:

- **Deduction** – Provides a dollar-for-dollar tax offset of certain insurer expenses.
- **Rate reduction** – Allows companies to reduce their tax rate.
- **Credit** – Provides dollar-for-dollar tax offset to incentivize certain activities.
- **Exemption** – Prevents certain types of companies or insurance from being

KEY RECOMMENDATIONS

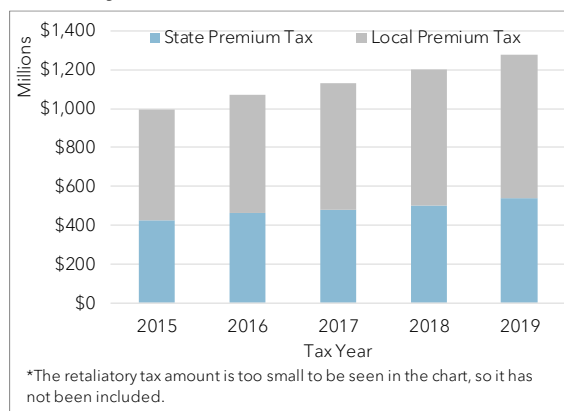
The report is intended to provide a primer of the state's premium taxes as requested by the Senate Appropriations Committee. It does not include findings or recommendations.

KEY FINDINGS

The Office of the Commissioner of Insurance (OCI) collects premium taxes for the state and for local governments. State and local premium taxes are collected from more than 1,000 entities each year, while state retaliatory taxes are collected from significantly fewer entities. Premium tax provisions vary by the type of company and insurance. For example, certain companies or insurance types are exempt from taxation, and local premium tax rates differ for life insurance and property and casualty insurance companies.

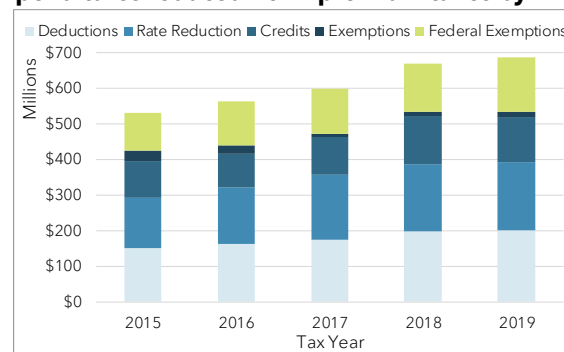
Premium tax collections for tax year 2019 totaled \$1.3 billion.

- Total premium taxes collected by OCI grew from \$993.5 million for tax year 2015 to \$1.3 billion for tax year 2019.
- For 2019, \$740.6 million (58%) were local premium taxes and \$536.8 million (42%) were state premium taxes. Only \$1.1 million (0.1%) were retaliatory taxes.



State and federal tax expenditures reduced 2019 premium taxes by almost \$700 million.

- Premium tax expenditures totaled \$695.8 million in forgone state taxes for 2019. Of this amount, \$535.4 million (78%) resulted from state provisions, and \$151.4 (22%) resulted from federal exemptions.



Effective premium tax rates vary by insurance company type and a company's state of domicile.

- The effective tax rate is the rate at which an insurer is taxed on premiums after reductions due to tax expenditures.
- Insurers paid a median effective tax rate of 4.0% in state and local taxes for tax year 2019.
- The median effective tax rate was 2.0% for life insurance companies and 4.0% for property and casualty insurance companies for 2019.
- The median effective tax rate was 0.4% for domestic companies and 4.7% for out-of-state companies for 2019.