Historical Tax Law Changes
Lieu Tax on Workers' Compensation Insurance Premiums

Laws 1925, Chapter 83, Section 58 imposed the first Arizona state tax upon employers who provided workers' compensation insurance to their employees on a self-insurance basis. The tax was imposed at a rate equal to the Insurance Premium Tax rate (2%) and based on the amount of potential premiums paid had the employer been insured with the State Compensation Fund. The Industrial Commission was responsible for collection of the tax and all receipts were paid into the State Compensation Fund. (E - March 25, 1925)

Laws 1933, 1st Special Session, Chapter 11 extended the 2% tax on workers' compensation insurance premiums to include all insurance carriers except the State Compensation Fund and provided that the 2% tax was in lieu of all other taxes on workers' compensation insurance. An annual minimum tax of $250 was established for self-insured employers. (E - June 26, 1933)

Laws 1953, Chapter 12 authorized the Industrial Commission to collect a tax on workers' compensation insurance premiums paid to the State Compensation Fund. The tax was not to exceed 1% of the premiums paid and collections from the tax were dedicated to the Industrial Commission's Special Fund. (E - June 30, 1953)

Laws 1968, 4th Special Session, Chapter 6 increased the premium tax designated for the Special Fund (see Laws of 1953) to a maximum of 2% of premiums received. Private carriers and self-insurers were required to pay the tax as well as the State Compensation Fund. The base of the original tax (see Laws of 1925 and 1933) was broadened to include the State Compensation Fund. The net result was a tax on private carriers, self-insurers and the State Compensation Fund of between 2% and 4% of premiums received depending upon the rate of the Special Fund tax set by the Industrial Commission. The receipts from the original tax were reallocated to the Industrial Commission's Administrative Fund beginning in 1970. For the 1969 calendar year, only the tax paid by the State Compensation Fund was dedicated to the Administrative Fund. Deposits in the Administrative Fund were used for the expenses of the Industrial Commission. Any deposits to this fund that exceeded the administrative expenses of the Industrial Commission were transferred to the Special Fund. All taxes levied on workers' compensation insurance premiums were paid on or before March 31 of each year. (EFA - January 1, 1969)

Laws 1969, Chapter 107 provided that the share of workers' compensation insurance premium taxes paid by insurance carriers and the State Compensation Fund to the Administrative Fund was deposited instead to the state General Fund. Any amounts deposited in the state General Fund over and above the expenses of the Industrial Commission were transferred to the Commission's Special Fund. (E - April 16, 1969)

Laws 1971, Chapter 173 increased the rate on the tax designated for the Administrative Fund to 3% of premiums received. In addition, the Industrial Commission was given the authority to increase the assessment going to the Special Fund by an amount not to exceed 0.5% of such assessment. The added assessment is for the purpose of reimbursing the State Compensation Fund for claims paid to individuals when their employer or insurance carrier fails to pay the claim or comply with Commission orders. The effective rate for both taxes could then aggregate between 3.0% and 5.01%. (E - August 13, 1971)

Laws 1974, Chapter 184 required insurance carriers and the State Compensation Fund to pay the tax on workers' compensation insurance premiums on or before March 1 of each year. The due date for self-insurers was not changed. (E - May 17, 1974)

Laws 1981, Chapter 299 changed the maximum rate of the Lieu Tax levied for the Industrial Commission's Special Fund from 2% to 1.5% of net premiums paid for workers' compensation insurance. A provision was also added authorizing the Industrial Commission to spend monies in the Special Fund for the construction and furnishing of a new office building. (E - July 25, 1981)

Laws 1983, Chapter 4 required insurers to make quarterly tax payments for the current year if their tax liability for the preceding calendar year was $2,000 or more. Under this law, quarterly payments are submitted to the state on or

before the last day of the month following the close of each quarter. The quarterly payments are equal to one of the following:

(1) The tax due on net premiums collected or contracted for during the preceding calendar quarter, or
(2) 25% of the tax paid or required to be paid for the preceding calendar year.

All quarterly payments are deducted from the tax paid by the insurer on the regular March due date. (ERTYBFA - December 31, 1982)

Laws 1983, Chapter 142 changed the distribution of the Lieu Tax on Workers' Compensation Insurance Premiums. Instead of depositing a share of collections in the General Fund, all collections from the tax for the Administrative Fund were deposited in the Administrative Fund. Deposits to the Administrative Fund were for the expenses of the Industrial Commission. Any revenues remaining in the Administrative Fund after paying the expenses of the Industrial Commission, were transferred to the Commission's Special Fund at the end of each fiscal year. The law also authorized the Industrial Commission to use monies in the Special Fund for making loans to the Administrative Fund. (E - April 19, 1983)

Laws 1985, Chapter 39 provided a civil penalty equal to the greater of $25 or 5% of the Lieu Tax due plus interest at 1% per month from the original due date for insurers who fail to pay the tax.

Laws 1990, Chapter 249 provided for a transfer to the state General Fund before April 15th of each year in the amount of potential federal taxes due for premiums collected during the preceding year <u>if</u> the State Compensation Fund was private and required to pay such federal tax. (E - September 27, 1990)

Laws 1993, 2nd Special Session, Chapter 3 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 1994. A session law required the Industrial Commission to revert any surplus in the Administrative Fund to the state General Fund on June 30, 1993. This was a one-time transfer. (E -June 15, 1993)

Laws 1993, 2nd Special Session, Chapter 9 was 1 of 6 "Omnibus Reconciliation Bills" necessary to implement the General Appropriations Act for FY 94. Affecting the Lieu Tax on Workers' Compensation Insurance Premiums were the provisions converting the workers' compensation insurance premium tax rate from a fixed rate of 3% to a variable rate not to exceed 3% and authorizing the Industrial Commission to annually fix the Workers' Compensation Insurance Tax rate to yield an amount only necessary to cover actual expenses of the Industrial Commission. The bill also eliminated the transfer of any surplus in the Administration Fund to the Special Fund; instead the surplus is used to calculate the tax rate for the following year. (E - June 15, 1993)