

Historical Tax Law Changes

Insurance Premium Tax

Laws 1912, 1st Special Session, Chapter 44 established the first Insurance Premium Tax under state law. The tax was levied on all insurance companies organized under the laws of any other state or foreign country at a rate of 2% of the gross premiums received for insurance covering liabilities within the state. Gross premiums included all premium income received since the filing of the last statement. Insurance companies were required to file a statement annually during the month of July. The Corporation Commission was responsible for administering the Insurance Tax. Collections from the tax were deposited in the State School Fund. (Effective June 18, 1912)

Laws 1913, 3rd Special Session, Chapter 94 changed the tax base to premiums collected during the previous calendar year. Premium income returned to customers or used for the purchase of reinsurance was excluded from the tax base. Insurance companies were required to file their insurance statements annually on March 1 and the Insurance Tax was due and payable at that time. Taxes were paid to the State Treasurer through the Corporation Commission. The provision for depositing collections in the State School Fund was repealed. A separate tax was levied on insurance acquired by contract from unauthorized insurers. An unauthorized insurer is an insurance carrier who has not been issued a certificate of authority. The tax on amounts paid to unauthorized insurers was levied at a rate of 15%. The tax was payable on December 1 of each year or within 10 days thereafter. The law also provided for retaliatory taxation of insurance companies organized under the laws of other states, when these states impose taxes on Arizona insurance companies in excess of the Arizona tax rate. [See Arizona Civil Code 1913, Sections 3401, 3404, 3420]

Laws 1915, Chapter 46 set aside 50% of the tax paid by fire insurance companies on premiums from insurance policies covering property in Arizona cities with a population of 3,000 or more. This portion of Insurance Tax collections was paid to the governing boards of the cities and used in maintaining a system of fire protection or to provide a Relief Fund for injured or disabled firemen. (Effective for Each Year After and Including 1915)

Laws 1927, Chapter 47 provided for the establishment of a Firemen's Pension and Retirement Fund in each city and town with a population of 3,000 or more and an organized Fire Department. Each city's share of the tax paid by fire insurance companies was deposited in its Firemen's Pension Fund and used for providing old age benefits to firemen. (Effective for Each Year After and Including 1927)

Laws 1929, Chapter 86 provided that the entire 2% tax on premiums collected by fire insurance companies for policies covering property in cities and towns with organized Fire Departments was set aside for payment into the Firemen's Relief and Pension Funds. All other related provisions were repealed. (Effective June 13, 1929)

Laws 1939, Chapter 68 provided that taxable insurance premiums should not include cancellation and return premiums, dividends paid to policyholders or amounts received as reinsurance on business in this state. The 15% tax on premiums paid to unauthorized insurers was replaced with a 3% tax on premiums received by surplus line insurers. Surplus line insurers were unauthorized insurers who provided insurance which could not be obtained from a majority of authorized companies and was not supplied at a lower rate than from authorized insurers. The tax on surplus line insurers was payable on or before March 10 of each year. (Effective June 12, 1939)

Laws 1941, Chapter 113 provided that the cash surrender value of life insurance policies or contracts is not deductible from gross premiums in determining the tax base. (Effective June 16, 1941)

Laws 1943, Chapter 95 included non-profit benefit insurance corporations under the Insurance Code but exempted these corporations from payment of the Insurance Premium Tax. (Effective July 1, 1943)

Laws 1945, Chapter 100 extended the 2% Premium Tax to cover domestic insurance companies (insurance companies organized under the laws of the state of Arizona). The due date for payment of the tax was also changed, such that, the tax on all insurers was paid not later than April 1 of each year. The law also repealed the Retaliatory Tax on insurance companies organized under the laws of other states or foreign countries. (Effective June 9, 1945)

Laws 1945, 1st Special Session, Chapter 13 included hospital and medical service corporations under the Insurance Code, but exempted these corporations from payment of the Insurance Premium Tax. (Effective October 3, 1945)

Laws 1954, Chapter 64 reduced the Premium Tax rate on domestic insurance companies to 1% of net premiums as part of a major revision to the Insurance Code. The law also reenacted retaliatory taxation of insurance companies in states with insurance tax rates exceeding Arizona's rate and excluded annuity payments from the definition of premiums for purposes of taxation. A Director of Insurance was created within the Corporation Commission and was given responsibility for collecting the tax. All collections not dedicated to the Firemen's Relief and Pension Funds were deposited in the state General Fund. The due date for authorized insurers was changed from April 1 to March 31. Surplus line insurers continued paying taxes by April 1 of each year. (Effective January 1, 1955)

Laws 1959, Chapter 145 increased the tax rate on motor vehicle insurance premiums paid to foreign (and alien) insurance carriers from 2% to 2.5%. Foreign insurance carriers are insurance companies organized under the laws of another state and alien insurance carriers are insurance companies organized under the laws of another country. Collections from the additional .5% tax were deposited in the Highway Patrol Retirement Fund. (Effective July 1, 1959)

Laws 1968, Chapter 84 provided that the portion of Vehicle Insurance Premium Taxes formerly dedicated to the Highway Patrol Retirement Fund was paid instead to the Highway Patrol account within the Public Safety Personnel Retirement System. The share of fire insurance premiums paid to cities with full-time paid firemen and no pension obligations to volunteer firemen was also redistributed from the Firemen's Pension and Relief Fund to the Public Safety Personnel Retirement System. (Effective June 30, 1968)

Laws 1968, Chapter 161 imposed a 1% tax on insurance premiums paid to hospital and medical service corporations but provided that the tax does not apply to any coverage provided to national, state, county and municipal governments or to any coverage financed with government funds. The tax established by this law was filed at the same time as the tax on other authorized insurers. (The tax was effective for premiums received on or after January 1, 1969)

NOTE: A constitutional amendment passed in the general election of November 5, 1968 established the Department of Insurance and transferred the responsibility for administering the Insurance Premium Tax to the new Department. (Effective January 28, 1969)

Laws 1972, Chapter 23 imposed a 3% tax on gross amounts paid by industries for insurance procured under contract from unauthorized insurers. The tax applied only to premiums paid for coverage of risks located in this state. Amounts returned to customers on account of cancellations or reductions of premiums were not subject to the tax. The tax was paid to the Insurance Department on or before April 1 of each year. (Effective August 13, 1972)

Laws 1973, Chapter 128 included health care service organizations under the Insurance Code and imposed taxes of 1% on premiums paid to domestic health care service organizations and taxes of 2% on premiums paid to foreign and alien health care service organizations. The tax was paid to the Department of Insurance annually on or before March 1. (Effective May 7, 1973)

Laws 1973, Chapter 135 required domestic insurers, who fail to maintain a home office in this state, to pay the same rates as those which are levied on foreign and alien insurers. Domestic insurers formed under Arizona law prior to January 1, 1973 were not subject to this provision until January 1, 1975. The payment due date for

authorized insurers was also changed, such that, they were required to pay taxes on or before March 1 of each year. (Effective August 8, 1973)

Laws 1973, Chapter 160 provided that domestic insurers who transact business in states or foreign countries where they are not licensed and are not subject to Insurance Premium Taxes shall be subject to Arizona's tax as though such business were transacted in this state. This provision was subsequently declared unconstitutional due to a legal technicality (*American Estate Life Insurance Company v. State of Arizona*, filed August 23, 1977). This law also changed the due date for surplus line insurers from April 1 of each year to March 1 of each year. (Effective May 14, 1973)

Laws 1974, Chapter 15 provided that March 31 should continue as the due date for the Insurance Premium Tax for authorized domestic insurers and established March 1 as the due date for all other insurers. (Effective August 9, 1974)

Laws 1975, Chapter 104 provided that health insurance associations offering catastrophic medical coverage were subject to a 1% tax on net premiums. The tax was paid to the Insurance Department on or before March 1 of each year. (Effective May 27, 1975)

Laws 1975, Chapter 118 included dental and optometric service corporations under the Insurance Code and imposed a 1% tax on insurance premiums paid to these corporations. The tax does not apply to any coverage provided to national, state, county and municipal governments or to any coverage financed with government funds. The tax established by this law was filed at the same time as the tax on other authorized insurers. (Effective September 12, 1975)

Laws 1976, Chapter 150 repealed the law which required payment of Insurance Premium Taxes by health insurance associations providing catastrophic medical coverage. (Effective September 23, 1976)

Laws 1976, 1st Special Session, Chapter 1 authorized a separate assessment against casualty insurance companies in an amount sufficient to pay the unfunded expenses of a Joint Underwriting Plan for medical malpractice insurers. Each insurer subject to these assessments was granted a decrease in Premium Tax liability equal to the amount of the assessment but not to exceed 50% of the insurer's current tax liability from sales of casualty insurance. If the assessment against the insurer exceeded the authorized deduction from tax liability, the insurer was permitted to deduct the excess from tax liability in subsequent years. (Effective February 27, 1976)

Laws 1977, Chapter 45 included prepaid dental plan organizations under the Insurance Code. A Premium Tax was levied on payments to these organizations as follows:

- (1) Domestic organizations, 1% of prepaid net charges received from members.
- (2) Foreign or alien organizations, 2% of prepaid net charges received from members.

The tax was paid annually on or before March 1. (Effective August 27, 1977)

Laws 1977, Chapter 130 established a separate assessment against property and casualty insurance companies to reimburse the Property and Casualty Insurance Guaranty Fund for the payment of claims against insolvent insurers. Each insurer subject to this assessment was granted a decrease in Premium Tax liability equal to 20% of the assessment for the year in which it was levied and 20% of the assessment per year for the next succeeding 4 years. (Effective August 27, 1977)

Laws 1977, Chapter 136 provided for additional assessments against life and disability insurance companies in amounts sufficient to reimburse the Life and Disability Insurance Guaranty Fund for the payment of claims against insolvent insurers. Each insurer subject to these assessments was granted a decrease in Premium Tax liability equal to 20% of the assessment for the year in which it was levied and 20% of the assessment per year for the next succeeding 4 years. (Effective August 27, 1977)

Laws 1981, Chapter 41 extended the Joint Underwriting Plan for medical malpractice insurers originally enacted by Laws 1976, 1st Special Session, Chapter 1. The Joint Underwriting Plan continued in operation until the state was able to secure reinsurance for medical malpractice insurers from a private insurance carrier or until all of the claims and potential claims against these insurers had been covered. The law also extended the Insurance Premium Tax deduction for assessments paid to the Joint Underwriting Plan Fund. (Effective April 1, 1981)

Laws 1981, Chapter 280 changed the distribution of collections from the tax on fire insurance premiums for cities, towns, and fire districts that have pension obligations to volunteer firemen or have firefighters not covered by the Public Safety Personnel Retirement System. Under the new law, collections from this source may be deposited in the Firefighters Relief and Pension Fund (formerly, the Firemen's Relief and Pension Fund) or used to purchase a private pension or benefit program for firemen. (Effective July 25, 1981)

Laws 1982, Chapter 211 provided that cities, towns and legally organized fire districts which procure the services of private fire companies are entitled to a share of the tax collected on fire insurance policies. The amount allocated to cities and towns was deposited in the city or town General Fund. The amount allocated to organized fire districts was deposited in the Firefighters' Relief and Pension Fund. (Effective July 24, 1982)

Laws 1982, Chapter 245 established a new credit against the Insurance Premium Tax for domestic insurers. The credit is equal to the amount paid by the domestic insurers for the triennial examinations conducted by the Insurance Department. One-third of the credit may be claimed by the insurers in the year when the fee is paid and 1/3rd may be claimed in each of the 2 subsequent years. (Effective July 24, 1982)

Laws 1983, Chapter 4 required insurers to make quarterly tax payments if their tax liability on premiums received during the preceding calendar year was \$2,000 or more. The quarterly payments did not apply to surplus line insurers, industrial insureds, taxes on vehicle insurance premiums, or retaliatory taxes. 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 1 of the following:

- (1) The tax due on the premiums received during the preceding calendar quarter, or
- (2) 25% of the tax due on premiums received during the preceding calendar year.

All quarterly payments are deducted from the tax paid by the insurer at the filing of the Annual Report. In addition to the quarterly payment provisions, this bill changed the annual due date for domestic prepaid dental plan organizations and domestic health care service organizations. The annual due date was changed from March 1 to March 31. These organizations were still required to file their Annual Reports on or before March 1. (Effective Retroactively to Taxable Years Beginning From and After December 31, 1982)

Laws 1983, Chapter 40 changed the date on which health care service organizations are required to file their Annual Report. Under this law, the due date was changed from March 1 to March 31 of each year. (Effective July 27, 1983)

Laws 1983, Chapter 227 authorized the formation of prepaid legal insurance corporations. These corporations were to pay taxes at the same rates as domestic insurers. (Effective July 27, 1983)

Laws 1985, Chapter 360 extended the credit against the Premium Tax to foreign and alien insurers for examination expenses. The Premium Tax rate was changed from 2% for foreign or alien insurers and 1% for domestic insurers to a uniform 1.7% for all insurers, except for the tax on fire insurance premiums which shall be 1.9%. Also, the additional Premium Tax which is appropriated to the Public Safety Personnel Retirement System was changed from $\frac{1}{2}$ of 1% to .4312% of net premiums. Also, payments are made by the last day of each April, July, and October in an amount equal to 30% of the amount paid or required to be paid during the preceding calendar year.

Laws 1986, Chapter 172 allowed the Industrial Commission to levy an additional Special Fund assessment of up to 0.5% on all premiums received by State Compensation Fund and private insurers, if annual liabilities of the Special

Fund due to certain permanent impairment claims exceeding \$6,000,000. An employer/carrier can challenge the additional assessment within 60 days after such assessment. This bill is retroactive to injuries occurring from and after December 31, 1985.

Laws 1987, Chapter 136 allowed the Director to examine insurers and report whether the insurer has complied with filed rates and proper adjustments. The Director may hire an independent contractor to perform the required examinations, and all examination-related expenses will be paid by the insurer from the Insurance Examiners Revolving Fund. Entitled each examined insurer to a Premium Tax credit for the amount paid for such examinations conducted. The Director will credit 1/3rd of the amount paid in the year paid, 1/3rd in the following calendar year, and 1/3rd in the next following calendar year. (Effective August 18, 1987)

Laws 1987, Chapter 249 exempted from the Insurance Premium Tax those payments received from the Secretary of Health and Human Services by health care service organizations to provide services to Medicare patients on a risk basis. (Effective August 18, 1987)

Laws 1988, Chapter 271 increased the Insurance Premium Tax rate from 1.7% to 2% and the tax on fire insurance premiums from 1.9% to 2.2%. This rate increase is delayed until July 1, 1989 for health-related premiums. (Effective July 1, 1988)

Laws 1989, Chapter 8 removed the Insurance Premium Tax credit for expenses incurred by domestic or alien insurers due to oversight examinations by the Department of Insurance; instead, insurers shall be compensated for such expenses by the Insurance Examiners Revolving Fund. (Effective September 15, 1989)

Laws 1989, Chapter 312 was the General Revenue Act for FY 1990. The additional Premium Tax collected in April, July, and October of 1989 and in March of 1990 was diverted from the Public Safety Personnel Retirement System (PSPRS) and remained in the state General Fund to partially offset the projected budget deficit in FY 1990.

Laws 1989, 2nd Special Session, Chapter 1 prescribed a new tax payment schedule for insurers whose prior year Insurance Premium Tax liability was \$2,000 or more. The old schedule required quarterly payments by the last day in April, July, and October, with each payment consisting of 30% of the insurer's previous year tax liability. The new schedule requires payments by the 15th day of each month from March through August in an amount equal to 15% of the previous year tax liability. The balance due for the current year is still the following March 31 for domestic insurers and March 1 for other insurers. The new schedule began on May 1, 1990. The net effect was to accelerate a portion of the Premium Tax revenues from FY 1991 into FY 1990.

Laws 1990, Chapter 279 reduced the Insurance Premium Tax rate on fire insurance premiums for property located in an incorporated city that contracts the services of a private fire company. The new rate is 0.66%, while all other fire premiums are still taxed at 2.2% of net premiums.

Laws 1991, Chapter 165 limited members of the Arizona Life and Disability Guaranty Fund, in the event of insolvency by an Arizona-based insurance company, to provide coverage only to Arizona policyholders. (Effective September 21, 1991)

Laws 1991, Chapter 265 was 1 of 2 "Omnibus Reconciliation Bills" (ORBs) necessary to implement the General Appropriations Act for FY 1992. One provision provided that any additional Motor Vehicle Insurance Premium Taxes received by the Public Safety Personnel Retirement System in excess of the needs of the Highway Patrol account shall be deposited in the Arizona Highway Patrol Fund. Also, for FY 1991, \$3,100,000 of the additional Motor Vehicle Insurance Premium Tax collected was transferred to the state General Fund. (Effective June 30, 1991)

Laws 1991, 4th Special Session, Chapter 5 modified the insurance premium tax credit insurance companies can claim for assessments paid to the state's Guaranty Funds. Previously, a company could reduce its Premium Tax liability by 20% of the assessment each year (as evidenced by a Certificate of Contribution issued by the

Department of Insurance) until 100% of the assessment is offset. Now, the tax credits for certificates of contributions issued from 1987 through 1994 are as follows:

- (1) For 1991, 7%
- (2) For 1992, 9%
- (3) For 1993, 11%
- (4) For 1994, 13%

In 1995, the percentage allowed returns to 20%. No offset can be taken unless the assessment for which the 1st year credit is claimed was paid in the same year that the insurer seeks to offset its taxes. Also, the Legislative Council shall contract a consultant to prepare a report on the tax credit program by March 15, 1992. Seventy-five thousand dollars shall be assessed against member insurers to retain a consultant for this study. A Joint Legislative Committee is established to review the consultant's report and prepare the recommendations. (Effective December 17, 1991)

Laws 1992, Chapter 30 effectively delayed the Insurance Premium Tax credit study established in Laws 1991 Chapter 5 of the 4th Special Session until a qualified consultant can be retained to conduct the study. The repeal date on the Joint Legislative Study Committee on Premium Tax Credits was set for January 1, 1993. (Effective April 17, 1992)

Laws 1992, Chapter 290 modified the Insurance Premium Tax credit that property and casualty insurance companies can claim for assessments paid to the state's Guaranty Funds. Previously, a company could reduce its Premium Tax liability by 20% of the assessment each year (as evidenced by a Certificate of Contribution issued by the Department of Insurance) until 100% of the assessment is offset. Now, the tax credits for certificates of contributions issued from 1987 through 1994 are as follows:

- (1) For 1992, 13%
- (2) For 1993, 11%
- (3) For 1994, 13%

In 1995, the percentage allowed returns to 20%. No offset can be taken unless the assessment for which the 1st year credit is claimed was paid in the same year that the insurer seeks to offset its taxes. This bill was 1 of 7 Omnibus Reconciliation Bills. The insurance provisions were in response to large insurance bankruptcies and similar to Laws 1991, Chapter 5, of the 4th Special Session which pertained to life and disability insurers. (Effective September 30, 1992)

Laws 1995, Chapter 180 provided a means of calculating Retaliatory Taxes in order to equalize the tax burden between Arizona insurers and insurers from other states or foreign countries. (Effective July 13, 1995)

Laws 1995, Chapter 263 provided that beginning July 1, 1996 accountable health plans will pay a premium tax of 1% of the net premiums received for health plans issued to small employers. Beginning July 1, 1997 accountable health plans are exempt from premium taxes for health plans issued to small employers. The bill provided that each accountable health plan notify the small employers of the reduction in premium taxes. (Effective July 13, 1995)

Laws 2002, Chapter 214 changed the insurance premium tax filing deadline for domestic insurers from on or before March 31 to on or before March 1, which is also the filing deadline for foreign and alien insurers.

Laws 2002, Chapter 237 provides that an insurer cannot claim a credit for the same employee in both an enterprise zone and a military reuse zone. It also provides clarification on the definition of net new employees and provides a cap of 200 positions on the number of eligible employees that can be claimed under the enterprise zone program.

Laws 2003, Chapter 136 removed the special exemption from the insurance premium tax for health plans that contract with the Arizona Health Care Cost Containment System beginning October 1, 2003. These plans will be subject to the tax at the 2% rate. The estimated impact of this tax law change for FY 2004 is \$69.7 million. The estimated full year impact of this legislation is an additional \$23.2 million, or \$93.0 million, beginning in FY 2005.

Laws 2006, Chapter 378 established a tax credit to health care insurers that provide health insurance to individuals and small businesses that have not had health insurance for the past 6 months. The tax credit began December 31, 2006, is capped at \$5 million per calendar year, and is administered by DOR.

Laws 2007, Chapter 263 required an application to DOR for the health insurance premium tax credit to include a written declaration that it is made under the penalty of perjury. Chapter 263 also clarified that the individual or small business must obtain health insurance to receive the credit, and applied a retroactive date of September 21, 2006.

Laws 2008, Chapter 118 clarified current statute by exempting accountable health plans from premium taxes for net premiums received for health benefits issued to small employers. The law also clarified current practice by exempting groups of small businesses that voluntarily pool their health plans from premium taxes [A.R.S. § 20-2304J].

Laws 2009, Chapter 135 requires the State Fire Marshal to certify and report which properties are located within an incorporated city or town that have service from a private fire company. The law prohibits action from being taken against an insurer that relies on the State Fire Marshal's report when calculating fire insurance premium taxes. Additionally, the law allows for a refund to be issued to fire insurance providers for any excess amount of premium tax paid. (Effective beginning September 30, 2009)

Laws 2009, Chapter 168 allows insurers to take a tax credit against their insurance premium tax liability for donations to STOs. Also, the law eliminates the sunset date of June 30, 2011 for the credit. The credit was capped at \$10 million in FY 2007, increasing by 20% in each successive year. Previously, the credit was only allowed for corporate income taxes. There is no fiscal impact as a result of this law as the inclusion of insurance premium tax liability did not alter the cap for the credit.

STO contributions are used to fund scholarships or grants for students of low-income families. The students must have transferred from a public school in the previous year to a qualified private school, enrolled in a private school kindergarten program or received a grant scholarship from the STO program in the previous year. (Effective beginning September 30, 2009)

Laws 2009, 2nd Special Session, Chapter 1 provides a credit, up to the full amount of the donation, for contributions made to a STO that provides education scholarships to disabled children or children in foster care. Previously, contributions made to a STO were only for education scholarships and tuition grants to children of low-income families. If the taxpayer is an insurer, the credit may be applied against their insurance premium tax liability. The full amount of tax credit approved by DOR is capped at \$5 million per year. A taxpayer may carry forward the unused portion of the tax credit for 5 years. A taxpayer shall not claim a tax credit under both A.R.S. § 43-1183 and A.R.S. § 43-1184 for the same contribution. (Effective beginning August 26, 2009)

Laws 2010, Chapter 118 requires fire districts and municipalities to provide to the Public Safety Personnel Retirement System any and all information needed to calculate and split fire insurance tax premium revenues between the fire districts and municipalities. (Effective from July 29, 2010)

Laws 2010, Chapter 292 prohibits insurance premium tax donations to charter schools as part of the School Tuition Organization (STO) Tax Credit program. (Effective retroactively from July 1, 2010)