GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 1891 (Second Edition)

SHORT TITLE: Simplify Fire & Lightning Tax Rate.

SPONSOR(S): Representatives Wainwright, Luebke, Church, and Hill

FISCAL IMPACT

	Yes ( )	**No (X)**	**No Estimate Available ( )**		
	FY 2006-07	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**FY 2010-11**
REVENUES:	**The bill broadens the base for the additional fire and lightning tax and establishes a revenue neutral rate. See assumptions and methodology.**				
EXPENDITURES:					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, NC Department of Insurance.

EFFECTIVE DATE: Section 1 is effective for taxable years beginning on or after January 1, 2006. Section 2 is effective for taxable years beginning on or after January 1, 2008. Sections 3 through 6 become effective January 1, 2008.

BILL SUMMARY: Under the current insurance tax structure there is a supplemental state tax of 1.33% on the gross premiums of fire and lightning coverage and a local tax of 0.5% within fire districts. In the case of a policy that is exclusively for fire and lightning coverage, 100% of the supplemental tax is levied. For situations where the policy provides insurance coverage in addition to these two lines, the agencies administering the tax have applied a number of different partial percentages to the policy premiums, with the percentage differing by type of auxiliary coverage. The issue is that the percentages have not been adopted either in statutory language or formal administrative rulings. In some cases the ratios have been tied to industry loss experience data. In recent years the Department of Revenue has received inquiries about the source of the percentages as well as requests to use individual insurance carrier experience in lieu of an overall percentage. At the same time some legal experts feel that 100% of the supplemental tax is due on all premiums from policies that contain any fire and lightning coverage.

Section 1 of the bill would codify the current administrative practice of the Department by setting in statute the percentage of an insurance policy's gross premiums to which the additional tax applies. It would provide that policies covering fire loss would be taxable at 100% and that commercial multiple peril liability coverage would be taxable at 100%. It would provide that 50% of homeowner's policy premiums and 30% of farm owners' policy premiums would be subject to the tax.

Sections 2 through 8 of the bill combines the state and local taxes, broadens the base by applying the tax to 10% of policies covering auto physical damage policies, and establishes a revenue neutral tax rate based on tax revenue for FY 2005-06.

ASSUMPTIONS AND METHODOLOGY: The first section of the bill, which is effective for taxable years after January 1, 2006, codifies current practice. There is no fiscal impact for this section of the bill.

Sections 2 through 8 are effective for taxable years beginning January 1, 2008. Section 2 repeals the additional local tax. This tax is combined with the statewide tax and the revenue is distributed by the Department of Insurance to local fire districts. The new statewide tax rate is calculated to hold fire districts harmless.

Section 3 establishes a new statewide tax rate of 0.85 percent. This rate is calculated by dividing the tax revenue for fiscal year 2005-06 for the statewide and the local fire and lightning tax by the sum of 100% of direct premiums for property coverage and 10% of direct premiums for auto physical damage for calendar year 2005. The property coverage premiums include the following lines of business: fire, farm owners multiple peril, homeowners multiple peril, non-liability portion of commercial multiple peril, ocean marine, inland marine, earthquake, private passenger automobile physical damage, commercial automobile physical damage, aircraft, and boiler and machinery. Sections 4 and 5 make conforming changes.

Sections 6, 7 and 8 provide for distribution of proceeds and use of grant funds from the Volunteer Fire Department Fund. The distribution percentages for the new combined statewide tax are calculated to provide for distributions proportional to current percentages for the State Fireman's Association (1.5%), local fire districts (23%), Volunteer Fire Department Fund (20%) and DOI Administration (0.5%). The remainder of revenue (55%) is distributed to the General Fund.

Section 7 of the bill requires the Revenue Laws Study Committee to recommend a method of distributing a portion of the tax to firemen's local relief funds. The report will be included in the report to the 2007 Session of the General Assembly.

SOURCES OF DATA: Department of Revenue, Department of Insurance.

TECHNICAL CONSIDERATIONS: None

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