



OREGON MUTUAL INSURANCE GROUP

**OREGON MUTUAL INSURANCE COMPANY
WESTERN PROTECTORS INSURANCE COMPANY**

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MEASURE: HB 2525
EXHIBIT: D
Joint Committee on Tax Credits 76th Session
DATE: 03-30-2011 PAGES: 3
SUBMITTED BY: STEVEN L. PATTERSON

Support (HB 2525) Extension of the FIRE INSURANCE PREMIUM TAX (FITP) CREDIT

What Does the Bill Do: HB 2525 prevents a tax increase on domestic insurers by maintaining a credit for the tax imposed on gross fire premiums sold in Oregon and used to fund the State Fire Marshal.

ORS 731.820 taxes every insurer "transacting insurance" based on its gross premiums for lines of business covering the peril of fire. This tax is specifically for the purpose of maintaining the office of the State Fire Marshal. In essence, insurers are collecting taxes on behalf of the State of Oregon.

Insurers in Oregon, including Oregon Mutual Insurance, which is a 117 year old Oregon domestic Personal and Commercial Insurance company located in McMinnville, are part of a highly regulated industry that pay fees and taxes in Oregon; a list that includes but is not limited to :

Transit Taxes for Tri Met and Lane County, Workers Benefit Fund taxes, Unemployment Insurance, The Oregon Excise Tax, Fire Insurance Premium Tax, State Examination Fees, Certificate of Compliance Fees, Certificate of Authority fees, Assessment to fund Operations of the Oregon Department of Insurance, Property taxes and Federal taxes. Insurers also support living wage jobs of families who, in our case, pay Oregon taxes, shop in our stores and support the local and state economy.

Tax Credits are being evaluated by the legislature and that is appropriate. Tax credits are provided to encourage certain activities such as energy savings, investments in communities, environmental benefit and other "desirable" activities or outcomes. Rather than an incentive that is difficult to measure, the Fire Insurance Premium Tax Credit is a credit for revenue collected by insurers solely to fund a state agency. According to the State Fire Marshal's office, the Fire Insurance Premium Tax funds approximately 60% of the 78 positions at OSFM. Among other programs this tax supports: *the State Fire Marshal's fire programs, the State Police Arson Unit and Firefighter training and accreditation through the Department of Public Safety Standards and Training (DPSST)*. To the extent that the Office of the State Fire Marshal is providing valuable services to Oregon and its communities, this tax credit is accomplishing desirable activity and **outcomes and should be extended.**

Failure to Pass HB 2525 is unfair to Oregon insurers and Oregon consumers. Eliminating this tax credit would cost Oregon insurers. In addition, removal of the credit will have retaliatory tax¹ implications in Oregon making Oregon Insurers pay a higher tax that most states insurers

¹ **retaliation laws**
Laws that taxes out-of-state insurance companies operating in its jurisdiction in the same way that the state's own insurance companies are taxed in the second state. For example, "state A" charges a tax of x% on its *domiciled* insurers. But if these insured are charged a higher tax when operating in Oregon, then "state A" will charge the higher tax to insurers of Oregon who wish to do business in "state A". The opposite is also true.

will not.² This tax increase would also be unrelated to any additional value or services provided to the insurers who pay the tax. Removing the credit will result in higher expenses to the insurers resulting in additional premium costs to consumers. This hidden tax on insurance consumers is unnecessary.

Oregon Mutual supports HB 2525 because:

The Fire Insurance Tax Credit is fair. By allowing the credit companies are not made to pay taxes on money they pay from premium collected that is never truly income to them. Merely treating the tax as an expense will allow the state to tax it as income when it is dedicated from the day it is collected regardless of other company expenses.

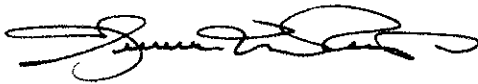
It is a hidden tax that costs insurance consumers twice: Taxes paid, over time, become a factor in the price of insurance policies as an expense. Oregon home and commercial fire policyholders are already paying for the current fees directly in their policies. There would be an additional tax expense associated with the loss of this credit which would have to become part of our pricing. In a highly competitive, price sensitive marketplace, any price changes could impact our ability to keep business or write new business. Opposing **HB 2525** is a vote for a hidden sales tax on insurance policies.

HB 2525 prevents a second tax increase on insurance businesses based on gross sales in two years. In return, this credit will help insurers retain jobs and/or investment in growth and technology that will lead to jobs. Elimination of the tax credit becomes an immediate increase in domestic insurer's taxes. Budget tightening leaves little left to cut but jobs or benefits, which is a decision we do not feel the legislature wants to make for us.

HB 2525 prevents making Oregon domestic insurance companies less competitive at home and in other states by avoiding retaliatory tax issues that would subject Oregon insurers to higher taxes at home and in other states where they do business. In passing **HB 2525** the legislature will help Oregon Insurers compete for more business, fuel growth and potentially expand geography while keeping and/or growing jobs in Oregon.

We ask for your AYE vote on HB 2525!

Respectfully,



Steven L. Patterson
Vice President & General Counsel
Oregon Mutual Insurance Company

² see example provided

Income/Retalutory Tax Example

Assumptions:

\$10 million direct written premium in Oregon; \$40 million direct written premium countrywide
 \$2 million fire allocated premium
 Net income before tax from annual statement - \$1 million
 Total taxes/fees paid by foreign insurer in home state - \$90,000

	With fire marshal credit		Without fire marshal credit	
	OR Domestic Company	Foreign Company	OR Domestic Company	Foreign Company
<u>Oregon Insurance Tax Calculation:</u>				
Fire Ins. Premium Tax (1% allocated fire premiums)	20,000	20,000	20,000	20,000
Misc. state fees	1,500	5,000	1,500	5,000
Oregon Excise Tax (from below)	15,000	15,000	16,500	16,500
Total tax before retaliatory fees	36,500	40,000	38,000	41,500
Taxes/fees paid in insurers' domestic state	NA	90,000	NA	90,000
Retaliatory tax paid to Oregon	NA	30,000	NA	15,000
Total Oregon taxes paid	\$ 36,500	\$ 90,000	\$ 38,000	\$ 90,000
<u>Oregon Excise Tax Calculation: Plugs in above:</u>				
Net income from annual stmt	1,000,000	1,000,000	1,000,000	1,000,000
Apportionment percentage	25.0000%	25.0000%	25.0000%	25.0000%
Apportioned income	250,000	250,000	250,000	250,000
Oregon Excise Tax (6.6%)	16,500	16,500	16,500	16,500
Fire Ins. Premium Tax Credit	(20,000)	(20,000)	0	0
Net Oregon tax (minimum tax)	15,000	15,000	16,500	16,500