House Engrossed

FILED
MICHELE REAGAN
SECRETARY OF STATE

State of Arizona
House of Representatives
Fifty-second Legislature
First Regular Session
2015

CHAPTER 220

HOUSE BILL 2568

AN ACT

AMENDING SECTIONS 20-224, 20-224.02 AND 20-416, ARIZONA REVISED STATUTES; RELATING TO INSURANCE PREMIUM TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 20-224, Arizona Revised Statutes, is amended to read:

20-224. Premium tax

A. On or before March 1 of each year each authorized domestic insurer, each other insurer and each formerly authorized insurer referred to in section 20-206, subsection B shall file with the director a report in a form prescribed by the director showing total direct premium income including policy membership and other fees and all other considerations for insurance from all classes of business whether designated as a premium or otherwise received by it during the preceding calendar year on account of policies and contracts covering property, subjects or risks located, resident or to be performed in this state, after deducting from such total direct premium income applicable cancellations, returned premiums, the amount of reduction in or refund of premiums allowed to industrial life policyholders for payment of premiums direct to an office of the insurer and all policy dividends, refunds, savings coupons and other similar returns paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance. No deduction shall be made of the cash surrender values of policies or contracts. Considerations received on annuity contracts, as well as the unabsorbed portion of any premium deposit, shall not be included in total direct premium income, and neither shall be subject to tax. The report shall separately indicate the total direct fire insurance premium income received from property located in the incorporated cities and towns certified by the state fire marshal pursuant to section 9-951, subsection B, as procuring the services of a private fire company.

B. Coincident with the filing of such tax report each insurer shall pay to the director for deposit, pursuant to sections 35-146 and 35-147, a tax ~~of 2.0 per cent of~~ ON such net premiums~~, except that the tax on fire insurance premiums on property located in an incorporated city or town certified by the state fire marshal pursuant to section 9-951, subsection B, as procuring the services of a private fire company is .66 per cent, the tax on all other fire insurance premiums is 2.2 per cent and the tax on health care service and disability insurance premiums is as prescribed under sections 20-837, 20-1010 and 20-1060~~ AT THE FOLLOWING RATES:

1. FOR FIRE INSURANCE:

(a) ON PROPERTY LOCATED IN A CITY OR TOWN CERTIFIED BY THE STATE FIRE MARSHAL PURSUANT TO SECTION 9-951, SUBSECTION B, AS PROCURING THE SERVICES OF A PRIVATE FIRE COMPANY, .66 PERCENT.

(b) ON ALL OTHER PROPERTY, 2.2 PERCENT.

2. FOR DISABILITY INSURANCE, 2.0 PERCENT.

3. FOR HEALTH CARE SERVICE PLANS, THE RATES PRESCRIBED UNDER SECTIONS 20-837, 20-1010 AND 20-1060.

4. FOR OTHER INSURANCE:

(a) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2016, 1.99 PERCENT.

(b) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2017, 1.98 PERCENT.
(c) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2018, 1.95 PERCENT.
(d) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2019, 1.92 PERCENT.
(e) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2020, 1.89 PERCENT.
(f) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2021, 1.86 PERCENT.
(g) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2022, 1.83 PERCENT.
(h) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2023, 1.80 PERCENT.
(i) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2024, 1.77 PERCENT.
(j) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2025, 1.74 PERCENT.
(k) FOR PREMIUMS RECEIVED IN CALENDAR YEAR 2026, 1.70 PERCENT AND FOR EACH SUBSEQUENT CALENDAR YEAR, 1.70 PERCENT.

C. Any payments of tax pursuant to subsection ~~E~~ F of this section shall be deducted from the tax payable pursuant to ~~this~~ subsection B OF THIS SECTION. Each insurer shall reflect the cost savings attributable to the lower tax in fire insurance premiums charged on property located in an incorporated city or town certified by the state fire marshal pursuant to section 9-951, subsection B, as procuring the services of a private fire company. No insurer shall be liable to the state or to any other person, or shall be subject to regulatory action, relating to the calculation or submittal of fire insurance premium taxes based in good faith ~~upon~~ ON the state fire marshal's certification.

~~C.~~ D. Eighty-five ~~per cent~~ PERCENT of the tax paid under this section by an insurer on account of premiums received for fire insurance shall be separately specified in the report and shall be apportioned in the manner provided by sections 9-951, 9-952 and 9-972, except that all of the tax so allocated to a fund of a municipality or fire district that has no volunteer ~~fire fighters~~ FIREFIGHTERS or pension obligations to volunteer ~~fire fighters~~ FIREFIGHTERS shall be appropriated to the account of the municipality or fire district in the public safety personnel retirement system and all of the tax so allocated to a fund of a municipality or fire district that has both full-time paid ~~fire fighters~~ FIREFIGHTERS and volunteer ~~fire fighters~~ FIREFIGHTERS or pension obligations to full-time paid ~~fire fighters~~ FIREFIGHTERS or volunteer ~~fire fighters~~ FIREFIGHTERS shall be appropriated to the account of the municipality or fire district in the public safety personnel retirement system where it shall be reallocated by actuarial procedures proportionately to the municipality or fire district for the account of the full-time paid ~~fire fighters~~ FIREFIGHTERS and to the municipality or fire district for the account of the volunteer ~~fire fighters~~ FIREFIGHTERS. A municipality or fire district shall provide to the public safety personnel retirement system all information that the system deems necessary to perform the reallocation prescribed by this section. A full accounting of such reallocation shall be forwarded to the municipality or fire district and their local boards.

~~D.~~ E. This section shall not apply to title insurance, and such insurers shall be taxed as provided in section 20-1566.

~~E.~~ F. Any insurer that paid or is required to pay a tax of two thousand dollars or more on net premiums received during the preceding calendar year, pursuant to subsection B of this section and sections 20-224.01, 20-837, 20-1010, 20-1060 and 20-1097.07, shall file on or before the fifteenth day of each month from March through August a report for that month, on a form prescribed by the director, accompanied by a payment in an amount equal to fifteen ~~per cent~~ PERCENT of the amount paid or required to be paid during the preceding calendar year pursuant to subsection B of this section and sections 20-224.01, 20-837, 20-1010, 20-1060 and 20-1097.07. The payments are due and payable on or before the fifteenth day of each month and shall be made to the director for deposit, pursuant to sections 35-146 and 35-147.

~~F.~~ G. Except for the tax paid on fire insurance premiums pursuant to subsections B and ~~C~~ D of this section, an insurer may claim a premium tax credit if the insurer qualifies for a credit pursuant to section 20-224.03, 20-224.04, 20-224.06 or 20-224.07.

~~G.~~ H. On receipt of a properly documented claim, a refund shall be provided to an insurer from available funds for the excess amount of any fire insurance premium improperly paid by the insurer. The insurer shall reflect the refund in the fire insurance premiums charged on the property that was charged the excessive amount.

I. FOR THE PURPOSES OF:

1. SUBSECTION B OF THIS SECTION, FIRE INSURANCE IS ONE HUNDRED PERCENT OF FIRE LINES, FORTY PERCENT OF COMMERCIAL MULTIPLE PERIL LINES, THIRTY-FIVE PERCENT OF HOMEOWNERS' MULTIPLE PERIL LINES, TWENTY-FIVE PERCENT OF MULTIPLE PERIL LINES AND TWENTY PERCENT OF ALLIED LINES.

2. SECTION 20-416, FIRE INSURANCE IS EIGHTY-FIVE PERCENT OF FIRE AND ALLIED LINES.

Sec. 2. Section 20-224.02, Arizona Revised Statutes, is amended to read:

20-224.02. Credit for overpayment of tax

If an overpayment of the taxes imposed by sections 20-224, 20-224.01, 20-837, 20-1010, 20-1060 and 20-1097.07 results from payments made pursuant to the method prescribed in section 20-224, subsection ~~E~~ F, the director shall within three months after the due date refund the overpayment without interest.

Sec. 3. Section 20-416, Arizona Revised Statutes, is amended to read:

20-416. Tax on surplus lines

A. On or before the due date prescribed in section 20-415, each surplus lines broker shall remit to the state treasurer through the director a tax on the premiums, exclusive of sums collected to cover federal and state taxes, examination fees and stamping fees collected pursuant to section 20-167, on surplus lines insurance covering Arizona single-state risks subject to tax transacted by the broker during the preceding reporting

period, as shown by the statement of surplus lines business filed with the director.

B. On or before the due date prescribed in section 20-415, each surplus lines broker shall remit to the clearinghouse responsible for administering the compact or multistate agreement entered into by the director pursuant to section 20-416.01 a tax on the premiums, exclusive of the sums collected to cover federal and state taxes, examination fees and stamping fees collected pursuant to section 20-167, on surplus lines insurance covering multistate risks subject to tax for insureds whose home state is Arizona transacted by the broker during the preceding reporting period, as shown by the statement of surplus lines business filed with the clearinghouse.

C. The tax required by subsections A and B of this section is at the rate of three ~~per cent~~ PERCENT of the gross premiums, including policy fees other than stamping fees prescribed in section 20-167, and shall not be applied to premiums returned on account of cancellation or reduction of premium and shall not be applied to gross premiums and returned premiums on business exempted from surplus lines provisions under section 20-420. The surplus lines broker shall collect the tax from the insured in addition to the full amount of the gross premium charged by the insurer for the insurance. The surplus lines broker shall return the tax on any portion of the premium unearned at the termination of the insurance policy to the policyholder. The surplus lines broker is prohibited from absorbing the tax and from rebating, for any reason, any part of the tax or commission.

D. Notwithstanding section 20-415 and subsection A of this section, if a surplus lines broker fails to timely renew the license held by the broker to transact surplus lines insurance and the broker's license is revoked by order of the director or the director accepts the consent to voluntary termination of the license, the broker shall file a statement of surplus lines business from the end of the last reporting period covered by the statement filed by the broker through the date the license was last valid and shall remit all outstanding surplus lines taxes to the director. The broker shall file the statement of surplus lines business and shall remit any outstanding surplus lines taxes within thirty days after the nonrenewal, revocation or voluntary termination of the license.

E. Except as provided in subsection F of this section, for the purpose of determining the surplus lines tax, the total premium charged for surplus lines insurance placed in a single transaction with one underwriter or group of underwriters, whether in one or more policies, shall be allocated to this state in the proportion as the total premium on the insured properties or operations in this state, computed on the exposure in this state on the basis of any single standard rating method in use in all states or countries where the insurance applies, bears to the total premium so computed in all the states or countries.

F. The surplus lines tax on insurance on motor transit operations conducted between this and other states is payable on the total premium charged on all surplus lines insurance less the portion of the premium determined as provided in subsection E of this section charged for operations in other states taxing the premium of an insured maintaining its headquarters office in this state or the premium for operations outside of this state of an insured maintaining its headquarters office outside of this state and a branch office in this state.

G. Such tax shall be apportioned in the manner provided by section 20-224, subsection ~~C~~ D.

H. All surplus lines taxes collected on Arizona single-state risks pursuant to this section and section 20-416.01 are monies that belong to this state and constitute a debt to this state. All surplus lines tax on coverage procured for an insured whose home state is Arizona that would otherwise be payable to another state as the other state's portion of a multistate risk shall constitute monies of this state and a debt to this state if the other state has not entered into a compact or multistate agreement to which Arizona is a party to effectuate the nonadmitted and reinsurance reform act of 2010 (15 United States Code section 8201).

APPROVED BY THE GOVERNOR APRIL 6, 2015.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 7, 2015.

Passed the House March 3, 20 15

by the following vote: 38 Ayes,

22 Nays, 0 Not Voting

Speaker of the House

☐ Pro Tempore

Chief Clerk of the House

Passed the Senate March 31, 20 15

by the following vote: 20 Ayes,

9 Nays, 1 Not Voting

President of the Senate

Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill received by the Governor this

1st day of April, 20 15

at 11:19 o'clock A. M.

Secretary to the Governor

Approved this 6th day of

April

at 1:27 o'clock P M.

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill received by the Secretary of State

this 7th day of April, 20 15

at 8:30 o'clock A M.

Secretary of State

H.B. 2568