

Insurance Premiums Tax

Background Insurance premiums taxes include several taxes levied on the receipts of insurance premiums collected by insurers in the Commonwealth. All life insurance companies, all stock and mutual insurance companies other than life, and captive insurers except fraternal assessment life insurance companies doing business in Kentucky must pay a tax on the gross premiums collected from policyholders. The rate of tax varies by type of insurance company: life insurance companies are assessed at a rate of \$1.50 per \$100 of premium receipts; stock and mutual insurance companies other than life are assessed \$2 per \$100 of receipts; and all stock insurers other than life, every mutual insurance company and Lloyd's insurer must pay 0.75 percent of premiums paid for fire insurance and for that portion allocable to fire insurance included in other coverage. A captive insurer (defined as an insurance company owned by one or more business entities that are licensed insurance producers and that only insure risks on policies placed through their owners) must pay a minimum of \$5,000 and/or a tax calculated on a sliding scale as a percentage of receipts.

The first insurance premiums taxes were adopted in 1942, and have been modified several times since that time.

Current Rate Structure	Life insurance companies	\$1.50 per \$100 of premium receipts
	Stock insurance companies other than life	\$2.00 per \$100 of premium receipts
	Mutual insurance companies other than life ...	2% of premiums or other receipts

In addition, every stock insurer other than life, every mutual insurance company and Lloyd's insurer shall pay 0.75% of all amounts paid for fire insurance and that portion allocable to insurance against the hazard of fire included in other coverage.

Captive insurance: Direct premiums:
 0.4% on the first \$20 million
 0.3% on the next \$20 million
 0.2% on the next \$20 million
 0.075% on each dollar thereafter

Reinsurance premiums:

- 0.225% on the first \$20 million
- 0.150% on the next \$20 million
- 0.050% on the next \$20 million
- 0.025% on each dollar thereafter

The minimum tax payable to captive insurers is \$5,000 regardless of calculated tax liability.

Tax Base

The tax is levied on premium receipts of insurance companies doing business in Kentucky. Premium receipts include single premiums, annuity premiums, premiums received for original insurance, premiums received for renewal, revival or reinstatement of the policies, annual and periodical premiums, dividends applied for premiums and additions, and all other premium payments received on policies that have been written in Kentucky, or elsewhere on business done in this state, less returned premiums. No deduction is made for dividends on life insurance or annuity policies, but dividends on accident and health insurance policies may be deducted. Premium receipts beginning in calendar year 2000 do not include annuity premiums or annuity dividends.

Tax Due

Any company whose tax was \$5,000 or more in the previous year must file a declaration of estimated tax by June 1. The tax must be paid in three equal installments, on June 1, October 1, and March 1 of the following year.

Table 10. Total Insurance Premiums Tax Expenditures

FY 2008	FY 2009	FY 2010
\$16.5 million	\$18.2 million	\$19.8 million

Tax Expenditures

1. Health Insurance for State Employees

Kentucky Revised Statute 136.330(3), effective July 13, 1984

The health insurance contract or contracts for state employees as authorized by KRS 18A.225 shall not be subject to the tax on premium receipts of life insurance companies.

FY 2008	FY 2009	FY 2010
\$15.060 million	\$16.665 million	\$18.270 million

2. Hospital, Medical or Dental Service Companies Exempt From Premium Tax

Kentucky Revised Statute 136.395, effective June 18, 1964

Premiums paid to or received by a hospital service corporation, medical service plan corporation, dental service plan corporation, or a domestic mutual insurer against the risk or cost of medical and/or surgical care organized under KRS 304.24-010 to 304.24-440 and KRS 304.32-010 to 304.32-270 are exempt from the premium tax.

FY 2008	FY 2009	FY 2010
\$1.466 million	\$1.509 million	\$1.555 million
