

BILL ANALYSIS

C.S.H.B. 2718

By: Paxton

Insurance

Committee Report (Substituted)

BACKGROUND AND PURPOSE

Presently, the Texas Insurance Code does not have language that distinguishes between the tax treatment of typical nonprofit membership organizations and special nonprofit associations operating for the benefit of its membership that is comprised largely of the armed services. Availability of life insurance for armed services members on an individual basis is problematic. Due to the unpredictable nature of the life expectancy of armed services members, the group life premiums are calculated on a retrospective basis. The current law has been interpreted with confusion concerning a non-profit armed services member association's collection of dues, fees and assessments, part of which go towards the association's cost for the purchase of a group life insurance policy for the benefit of the members. The current law is being interpreted to apply the premium tax calculation to the entire amount collected from the membership regardless that a significant portion of the amount collected does not go to premiums. This legislation is intended to clarify the law by expressly establishing that the premium tax shall only be calculated on the final amount of money paid as premium to the insurer of the group life policy following a retrospective premium calculation. All other monies collected by a nonprofit armed services association shall not be subject to premium tax.

C.S.H.B. 2718 seeks to clarify the law concerning the amount of money collected by a nonprofit armed services association that shall be subject to the premium tax and defines such associations. The bill amends Section 1131.503 of the Texas Insurance Code by adding a new Subsection (c). This new subsection clarifies that premium tax shall only be calculated on the final amount of money calculated retrospectively and paid to the insurer of the association's group life policy. All other monies collected by a nonprofit armed services association shall not be subject to premium tax.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 2718 relates to treatment of retrospective premiums for group life insurance issued through certain nonprofit membership associations.

C.S.H.B. 2718 in SECTION 1 seeks to amend Section 1131.503 of the Texas Insurance Code by adding Subsection (c). This new subsection clarifies that only monies paid by a nonprofit armed services association to an insurer for the purchase of group life insurance shall be subject to the premium tax. The subsection states that for purposes of certain sections, only the final retrospectively determined premium amount remitted to the issuer by the group policyholder is taxable as gross premiums, without regard to whether membership contributions, fees, assessments, dues, revenues, or other considerations in excess of that final amount are also collected from members. Further, the Subsection (c) sets out the nonprofit membership association to which this Section applies.

The next section, SECTION 2, of C.S.H.B. 2718 states that the change in law made by this Act applies only to a premium remitted on or after the effective date of this Act. A premium remitted before the effective date of this Act is governed by the law as it existed immediately before the effective date of this Act, and that law is continued in effect for that purpose.

EFFECTIVE DATE

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2007.

COMPARISON OF ORIGINAL TO SUBSTITUTE

C.S.H.B 2718 changes the original house bill in several ways. First, the substitute changes the "relating to" language of the original house bill. C.S.H.B 2718 now states that the bill relates to the treatment of retrospective premiums for group life insurance issued through certain nonprofit membership association, whereas the original house bill stated that the bill related to treatment of premiums for group life insurance issued through voluntary employee beneficiary associations.

Next, C.S.H.B 2718 adds to the language found in the original house bill. The substitute applies the exemption to two additional sections of the Insurance Code (Section 257.001 and Section 281.004) and more specifically and narrowly defines the nonprofit membership association to which the Section applies.

Finally, C.S.H.B 2718 changes SECTION 2 by adding language which reads that the change in law made by this Act applies only to a premium remitted on or after the effective date of this Act. A premium remitted before the effective date of this Act is governed by the law as it existed immediately before the effective date of this Act, and that law is continued in effect for that purpose. The effective date found in SECTION 3 of the original house bill is also changed in the substitute. C.S.H.B 2718 makes the bill effective immediately if it receives a two-thirds vote in each house and if it does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2007.