LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 30, 2013

TO: Honorable John T. Smithee, Chair, House Committee on Insurance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2717** by Eiland (Relating to an insurer that establishes or significantly expands physical operations in this state; authorizing a premium tax credit.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2717, As Introduced: a negative impact of ($48,000,000) through the biennium ending August 31, 2015.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	($24,000,000)
2015	($24,000,000)
2016	($24,000,000)
2017	($24,000,000)
2018	($24,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *General Revenue Fund* 1	Probable Revenue Gain/(Loss) from *Foundation School Fund* 193
2014	($18,000,000)	($6,000,000)
2015	($18,000,000)	($6,000,000)
2016	($18,000,000)	($6,000,000)
2017	($18,000,000)	($6,000,000)
2018	($18,000,000)	($6,000,000)

Fiscal Analysis

The bill would amend the Insurance Code by adding new Chapter 230, relating to insurance premium tax credits for certain insurers.

The bill would allow the Commissioner of Insurance, with the concurrence of the Comptroller, to award a premium tax credit to insurers that establish or significantly expand physical operations in this state. The establishment or expansion of operations would have to produce a significant economic benefit to the state in the taxable year in which the establishment or expansion occurred.

In order to receive the credit insurers, would have to submit an application to the commissioner and to the Comptroller demonstrating that taxes, fees, and other revenue to the state associated with the establishment or expansion will more than offset foregone premium tax revenue. The amount of the premium tax credit could not exceed the amount of the investment related to the establishment or expansion. The commissioner could grant up to eight years of premium tax credits for a single establishment or expansion of operations.

The premium tax credit for individual insurers would be limited to the amount of premium tax owed in any taxable year; unused premium tax credit could be carried forward for up to seven years. The bill would allow for the recapture of premium tax credits previously claimed under certain circumstances.

The bill would take effect September 1, 2013.

Methodology

The bill does not limit the aggregate amount of premium tax credits that could be taken under new Chapter 230 in any one year. Insurance premium tax revenue in fiscal 2012 was $1.36 billion. To the extent that insurers would apply for and receive premium tax credits for establishment or expansion of operations, insurance premium tax revenue would be reduced. The amount of that reduction cannot be determined, however it could be significant. For example, according to the San Antonio Business Journal and the San Antonio Express News, a prominent Texas insurer recently announced plans to expand operations in San Antonio by hiring at least 1,000 new workers and leasing 128,000 square feet of office space. The annual lease amount of the additional office space is estimated to be $1.92 million; assuming the average salary of the additional 1,000 employees is equal to the Texas Workforce Commission estimate of the average salary of Texas nonfarm employees ($41,700), the additional wage bill would be $41,700,000. For tax year 2011 (fiscal 2012) the insurer paid approximately $12.1 million in property and casualty premium tax. Under the terms of this bill, premium tax credits received from this one expansion could reduce the insurer's property and casualty premium tax liability to zero for up to 15 years.

The bill would allow for premium tax credits to be applied to, inter alia, premium tax liability under Chapter 225 (surplus lines insurance premium tax) of the Insurance Code. However, surplus lines premium tax is paid by an insured to an agent who then remits the tax to the Comptroller, and it is not clear how the premium tax credit would be administered for tax liability under this chapter.

The bill would allow the Commissioner of Insurance, with the concurrence of the Comptroller, to award the premium tax credit. Although the bill describes the procedures and requirements for approval of the premium tax credit by the Commissioner of Insurance, there is no description of the procedures and requirements for approval of the premium tax credit by the Comptroller.

The fiscal impact presented in the table reflects the premium tax loss from the tax credits that would be received by Texas insurers as the result of two previously planned expansions of the type described above.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 454 Department of Insurance

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