

March 28, 2022

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3880 (Nelson)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
			(000's)	
General Fund	\$0	(\$23,900)	(\$10,600)	(\$10,900)

Effective retroactively for premiums paid after July 21, 2011.

EXPLANATION OF THE BILL

Current Law: The gross premiums tax is imposed on gross premiums received by domestic and foreign insurance companies. A domestic company is a traditional licensed insurer incorporated in Minnesota, and a foreign company is a traditional licensed insurer incorporated in another state or country. The tax rate is generally 2%, with some exceptions. For traditional or admitted insurers (i.e., insurers licensed by the Minnesota Department of Commerce), the tax is imposed on all direct business in Minnesota. For nonadmitted insurance, federal and state law require the tax be imposed: 1) when Minnesota is the “home state”; and 2) on nationwide premium.

Nonadmitted insurance typically involves unusual or niche coverages not offered by Minnesota licensed insurers. Nonadmitted insurance may be purchased through a surplus lines agent or it may be purchased directly by the insured. Captive insurers fall into this category of directly purchased insurance. For nonadmitted insurance purchased through a surplus line broker, the rate is 3% of gross premiums paid by an insured whose home state is Minnesota. For directly purchased nonadmitted insurance, the rate is 2% of gross premiums paid by an insured whose home state is Minnesota.

Proposed Law: The bill excludes captive insurance companies from the definition of nonadmitted insurers. The effect is that premiums paid by the owners of captive insurance companies to their captives would be exempt from the gross premiums tax.

A captive insurance company is a company licensed as a captive insurance company in any state or country or that derives less than 50% of its total premiums from sources outside the unitary business.

REVENUE ANALYSIS DETAIL

- The total amount of gross premiums tax owed by captive insurance companies is unknown. The estimate is based on a portion of gross premiums taxes collected from all nonadmitted insurers since 2011, increased to account for additional captive insurance companies that have not paid tax.
- It is assumed that captive insurance companies that had previously paid insurance premiums tax would be able to claim a refund for the previous 3 ½ years within the statute of limitations.

REVENUE ANALYSIS DETAIL (Cont.)

- Retroactive impacts are allocated to fiscal year 2023. For other years, tax year impacts are allocated 30% / 70% to fiscal years.

Number of Taxpayers: Unknown

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

sf3880_1 Captive Insurance Companies / cw