P.O. Box 749 * Tallahassee, FL 32302 * TEL: 850.386.6668 * Fax: 850.386.7371

April 5, 2018

Terrie Rizzo
Florida Democratic Party
214 South Bronough Street
Tallahassee, FL 32301

Re: Quote from Florida Politics Article

Dear Ms. Rizzo:

We in the insurance industry are very disappointed at your quote in a Florida Politics article on March 21, which read:

> "We know what Florida looks like after nearly 20 years of being under all Republican rule – an economy that does not work for all Floridians, a weakened public school system, rising health care costs while insurance companies get tax breaks, and leaders who are controlled by special interests."

A fact you should be aware of is that current insurance premium tax structure, including the credits, was enacted in the late 1980s when the Democrats controlled both Houses of the legislature.

Florida imposes a gross receipts tax of 1.75% on all life, health, property and casualty premiums collected by insurers for risks located in the state of Florida. The gross receipts premium tax is very regressive, because it must be paid by insurers whether the insurer makes a profit or not. Florida also imposes gross receipts taxes on utilities and communications, but those taxes are applied "below the line" and collected by the businesses directly from the consumer and transmitted to the state. Thus, insurers are the only Florida businesses that are subject to the direct imposition of a gross receipts tax on their gross revenues. Insurers also pay the corporate income tax in Florida. The payment of both the gross receipts premium tax and the corporate income tax illustrates the unfairly high taxes paid by insurers when compared to Florida businesses.

Tax credits allowed by law moderate the unequal tax burden the current Florida tax structure puts on insurers. The State imposes the corporate income tax ("CIT") on insurers, but allows the insurers to take a credit for the CIT paid, which keeps the unequal tax burden from being higher. The State also grants a salary credit against the premium tax of 15% for salaries actually paid to Florida employees, although the credit is limited, this credit greatly assists in equalizing the unfair tax burden imposed on insurers.

To determine the extent to which insurance companies bear a greater tax burden in Florida than general business corporations, a comparison must be made between an insurers' premium tax liability and the corporate income tax liability equivalent as a percentage of the same base - statutory net income. Ernst & Young has calculated the income tax rate equivalent of the premium tax for all 50 states and the District of Columbia. The Ernst & Young report also reveals:

- For all life insurance companies, the average state tax burden from 2006 through 2010 from premium taxation was approximately triple the tax burden of other industries subject to the states' general corporate income tax, The weighted-average corporate income tax rate equivalent of the premium tax during this seven-year period was 22.1 percent, as compared with a weighted average top marginal state corporate income tax rate of 6.5 percent.

- Thirty-three states and the District of Columbia imposed an income tax rate equivalent of the premium tax greater than 15 percent during this seven-year period. By contrast, the 2002 Ernst & Young study found that 25 states and the District of Columbia had income tax rate equivalents greater than 15 percent in 2000. For example, life insurers in Alabama paid an average income tax rate equivalent of premium taxation of nearly 24 percent from 2006 through 2012. This rate is greater than 360 percent of the state's 6.5 percent corporate income tax rate during the period.

A look at Florida's premium tax collections and Corporate Income Tax collections from insurers paints a very similar picture of the unequal tax burden paid by insurers in Florida. A review of the gross receipts premium taxes and corporate income taxes paid by insurers during the years from 2010 to 2016 provides the data to compute the corporate tax equivalent paid by insurers during such years.[1]

Year	Premium Tax-Gen. Revenue Collections	Corporate Tax Collections from Insurers @ 5.5%	CIT Equivalent Rate
2010-2011	$482,500,000	$218,200,000	12.16%
2011-2012	$492,300,000	$156,400,000	17.33%
2012-2013	$477,800,000	$128,100,000	20.35%
2013-2014	$470,500,000	$168,300,000	15.40%
2014-2015	$466,500,000	$$152,100,000	16.86%
2015-2016 Est)	$495,900,000	$157,600,000	17.33%
2016-2017 (Est)	$495,700,000	$157,600,000	17.33%

The Florida Corporate tax rate is 5.5% for all business and the chart above shows insurers are already paying an equivalent tax rate of 12.16% to 20.35%, which is 7%-15% higher than that paid by other non-insurance businesses.

1. Tax collection information taken from the Florida Tax Handbook for 2010, 2011, 2012, 2013, 2014, 2015 and 2016, which is published by the Florida Office of Economic and Demographic Research.

The calculation of the corporate tax equivalent rate in the above chart was made using the total corporate taxes paid by insurers and the total premium taxes paid by insurers after all applicable premium tax credits are accounted for. Thus, these extremely high equivalent corporate tax rates imposed on insurers are generated even after the insurers are permitted to take their salary credits.

The tax credits available to insurers in Florida, with few exceptions, arise from payments made by insurers to or on behalf of the State and are solely for the purpose of attempting to mitigate the unequal tax burden imposed on insurers by Florida. With the facts presented herein available to you, we hope you will reconsider your position that tax breaks for the insurance are contributing to an economy in Florida that does not work and are harmful to Floridians.

I look forward to hearing from you and will be happy to provide you with more information on this subject, if you so desire.

Sincerely,

Cecil Pearce
President

cc: Sen. Audrey Gibson
Rep. Kionne L. McGhee