INSURANCE TAXATION IN GEORGIA:
ANALYSIS AND OPTIONS

Like the great majority of states, Georgia uses a premium tax to tax its insurance industry. This premium tax raised approximately 2.08 percent of state taxes in 1997. In contrast, the Georgia Corporate Income tax generated 6.70 percent of state tax revenues in 1997.

The premium tax is one of the few taxes on services and its apparent low rate of 2.25 percent makes it appear innocuous. It is not likely that consumers even realize that the service is being taxed since the tax is collected by the insurer and passed along to the state, much like a sales tax. Two major advantages of the tax are that it is a simple tax and that revenue grows directly with income growth.

Although a relatively simple tax, Georgia provides a number of exemptions and abatements that make the tax more complicated. These abatements and deductions are provided for: investments in the state of Georgia; certain property-liability retaliatory taxes\(^1\) paid to other states; local taxes and fees, and; accident and guarantee fund assessments. The exemptions for local taxes and fees and for the exemption for the guarantee fund assessments\(^2\) are available to the life, accident and health insurance industries only.

Table A shows Georgia relative to important insurance states, as well as its sister southeastern states. Georgia appears to be in the middle to higher range in terms of tax rate for both the life and non-life insurance industries.

Georgia’s effective rate appears to be much lower than most states. The effective tax rate is the total premium taxes collected by the state in 1994 divided by the total premiums written in 1994. Note that most statutory rates differ substantially from the effective rate. Georgia’s nominal statutory rate is 2.25 percent, while its an effective rate is 1.78 percent. In contrast, Florida’s nominal statutory rate is 1.75 and its effective rate is 1.70. These differences reflect differences in the structure of the states’ tax laws. For Georgia this difference is due to credits and abatements available to certain companies doing business in Georgia.

\(^1\) Retaliatory taxes are those taxes imposed on a foreign company by a host state because the foreign company’s own state levies a higher tax rate on premiums than the host state. Thus, when a company writes premiums in a state with a rate lower than its home state, that company essentially pays the higher rate of its own home state to the host state.

\(^2\) Guarantee fund assessments are made against all companies doing business within Georgia if in the event of an insolvency, the assets of the insolvent company are not sufficient to pay the losses incurred. The assessment made by the Georgia guarantee fund is deductible against a company’s premium tax.
Table A. Comparison of Georgia with Other Southeastern States and Important Insurance States

<table>
<thead>
<tr>
<th>State</th>
<th>Life Rate %</th>
<th>Non-Life Rate %</th>
<th>Effective Tax Rate %*</th>
<th>Non-Life NAIC Effective Rate %**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>2.80</td>
<td>3.6</td>
<td>3.35</td>
<td>3.65</td>
</tr>
<tr>
<td>Arkansas</td>
<td>2.50</td>
<td>2.5</td>
<td>1.94</td>
<td>3.11</td>
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<tr>
<td>California</td>
<td>2.15</td>
<td>2.15</td>
<td>2.07</td>
<td>2.44</td>
</tr>
<tr>
<td>Connecticut</td>
<td>1.75</td>
<td>2.00</td>
<td>1.70</td>
<td>2.64</td>
</tr>
<tr>
<td>Florida</td>
<td>1.75</td>
<td>1.75</td>
<td>1.78</td>
<td>3.08</td>
</tr>
<tr>
<td>Georgia</td>
<td>2.25</td>
<td>2.25</td>
<td>0.74</td>
<td>5.05</td>
</tr>
<tr>
<td>Illinois</td>
<td>2.00</td>
<td>2.25</td>
<td>5.34</td>
<td>5.02</td>
</tr>
<tr>
<td>Kentucky</td>
<td>2.00</td>
<td>2.25</td>
<td>3.67</td>
<td>4.00</td>
</tr>
<tr>
<td>Louisiana</td>
<td>2.25</td>
<td>2.25</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2.00</td>
<td>2.25</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>Mississippi</td>
<td>3.00</td>
<td>3.00</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>New Jersey</td>
<td>2.10</td>
<td>2.10</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>New York</td>
<td>0.80</td>
<td>1.30</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1.90</td>
<td>1.50</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>Ohio</td>
<td>2.50</td>
<td>2.50</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>South Carolina</td>
<td>0.75</td>
<td>1.25</td>
<td>5.34</td>
<td>2.57</td>
</tr>
<tr>
<td>Tennessee</td>
<td>2.00</td>
<td>2.50</td>
<td>2.26</td>
<td>2.65</td>
</tr>
<tr>
<td>Texas</td>
<td>2.40</td>
<td>2.50</td>
<td>2.26</td>
<td>2.65</td>
</tr>
<tr>
<td>Virginia</td>
<td>2.25</td>
<td>2.25</td>
<td>2.41</td>
<td>2.41</td>
</tr>
</tbody>
</table>

*Includes both life and non-life premium taxes, but only those taxes paid to the state.

**Obtained from Page 14 of the NAIC Annual Statement Tapes for the Property-Liability Industry.

Rate includes all taxes, licenses, and fees to state and local governments.

The effective state tax rate shown in column (3), however, is not necessarily a good indicator of a tax burden since Georgia also has local premium taxes that are not included in the calculation of the effective tax rates. These local taxes are an additional 1 percent for life companies and an additional 2.5 percent for non-life companies. Further, the life companies can take a credit for their payments to local governments, while the non-life companies do not have a similar credit. The last column in Table A shows the effective tax rate for all non-life companies that write insurance in Georgia, and it includes all taxes, licenses, and fees paid to Georgia or its political subdivisions. (The third column reflects merely taxes collected by the state.) As can be seen, Georgia's non-life effective rate is significantly higher than the surrounding states. In fact, only one state has a higher effective tax rate for the non-life industry, Kentucky, which has substantial local taxes and fees in addition to the premium tax.

With the advent of competing financial services, combinations of providers could offer many insurance products. It is important not to provide a tax incentive for consumers to purchase from one provider over another. Currently in Georgia, banks are taxed in one way, insurers in another, and non-bank financial institutions in still another. For horizontal equity to be achieved, all financial service companies should be treated similarly for tax purposes.

Another part of the Georgia premium tax structure affecting horizontal equity (within the insurance industry) concerns the use of abatements and exemptions. One of the important abatements or exemptions is the investment abatement. It is supposed to facilitate economic growth and to reward those companies that invest in Georgia-based securities. If a company is able to take advantage of the abatement, the premium tax rate can be reduced to 0.50 percent. Our empirical results show the major beneficiaries of this abatement to be small insurance companies and domestic (i.e., Georgia-based) insurance companies.

There are a number of problems with this abatement. First, if its purpose is to encourage economic development, then a more direct approach, such as a jobs or wage credit is warranted. Second, if economic development is an important goal, it is not being met by the current abatement because large non-Georgia insurance companies (which make up the supra majority of Georgia's market) are not always able to take advantage of the abatement. To invest so much of a large company's asset base in one state is neither practical nor prudent.

Another equity problem arises because of the operation of the retaliatory tax. Because Georgia's nominal rate is...
higher than the national average, the domestic insurance industry must pay additional taxes to states with lower rates due to the operation of the retaliatory tax. Every state except Hawaii has a retaliatory tax provision which essentially requires an insurer domiciled in State A and operating in State B to pay the higher of its own state’s tax or the tax of State A. Thus, a Georgia company operating in Florida would pay the Georgia rate on its Florida premiums to the state of Florida since the Georgia rate is higher than Florida’s 1.75 percent rate. Because Georgia’s rate is higher than in nearly all surrounding states, the retaliatory tax hinders the development of Georgia’s domestic companies because they are not competitive in the out-of-state market.

The Georgia premium tax has three separate reform opportunities. First, removing the disparate treatment found in the various abatements in the premium tax can reduce differences in treatment between life, health, and non-life companies.

Second, in conjunction with the removal of abatements, serious thought should be given to lowering the premium tax to be in line with the national average in order to reduce the negative impact of the retaliatory tax.

Third, serious consideration is merited for changing the structure of the tax from a gross revenue tax to one that is more in line with traditional corporations. This is a long-run reform option that will require serious thought because of the competition that will develop from various actors in the financial service industry. Banks, thrifts, and non-bank financial service corporations should be treated in approximately similar ways. The entire structure of the tax will require examination if people choose products solely because of their tax treatments. The revenue impact of changing from a premium tax to an income tax would be substantial, as the effective tax rate on premiums would be reduced dramatically.

A major problem with tax reform in the financial services industry is that while it is easy to see differences between insurers, banks, and non-bank financial services companies, it is much more difficult to see the similarities. However, with increasing competition among these industries, it will be easier to see the similarities, as the proposed mergers of Travelers and Citicorp illustrate. When banks start marketing insurance or when insurers start selling mutual funds, these differences will be immaterial. Thus, it is important to put all financial service taxes under scrutiny.

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