




Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 365 (as passed by the Senate)
Sponsor: Senator Jud Gilbert, II
Committee: Transportation

Date Completed: 8-6-07

RATIONALE

The Insurance Code imposes a tax and regulatory fee of 2.5% of premiums written in the State by insurers not authorized to transact insurance in Michigan, including those writing air carrier insurance. Because no authorized insurance companies offer the amount of aviation liability insurance required by international laws, every cargo airline operating in the State must purchase insurance from an unauthorized insurer. In some states, insurers that sell aviation insurance to cargo airlines are not subject to similar taxes and fees, which evidently gives them a competitive advantage.

Some people have suggested that, because air carrier insurance is not available in Michigan in the amount required, it should be exempt from the tax and fee on insurance offered through unauthorized insurers.

CONTENT

The bill would amend the Insurance Code to exempt air carrier insurance from a tax and fee on insurance offered through unauthorized insurers.

Under the Code, any unauthorized insurer transacting insurance in Michigan is subject to a tax of 2% of premiums written in the State, and to an additional regulatory fee of 0.5% on those premiums.

Under the bill, the tax and fee would not apply to premiums written for air carrier insurance that generally was unavailable through authorized insurers offering air carrier insurance to air carriers operating interstate or intrastate.

Currently, the tax is considered delinquent if not paid within 30 days after a copy of the computation of the tax is delivered to the insurer. Under the bill, the additional regulatory fee also would be delinquent under those circumstances.

As used in the bill, "air carrier" would mean a Michigan-based airline that is a scheduled or nonscheduled operator and that operates only aircraft with more than 30 passenger seats or with a payload capacity of more than 7,500 pounds.

MCL 500.451

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Michigan air carriers must purchase aviation liability insurance from unauthorized, out-of-State insurers. Because of the tax and fee on those insurers, insurance costs for Michigan companies are comparatively higher than those of competitors located in states that do not impose a similar tax and fee. The bill would effectively lower operating costs for Michigan businesses and allow them to be more competitive, which could encourage them to remain in this State.

Opposing Argument

According to the Office of Financial and Insurance Services (OFIS), Michigan is "in the midst of a budget crisis of unparalleled proportions, and this is a particularly inopportune time to advance additional cuts

in state revenue, however modest". Because unauthorized insurers do not otherwise pay fees for their regulation, contribute to guaranty funds, or pay taxes imposed on other businesses, they should continue to pay the unauthorized insurer tax. Additionally, OFIS relies on the unauthorized insurer fee to perform its oversight and regulatory duties; the bill would reduce this revenue.

Legislative Analyst: Craig Laurie

FISCAL IMPACT

Based on information from aviation businesses affected by this bill, it is estimated the bill would reduce revenue by less than \$0.5 million annually. Of this amount, approximately 80% would be lost insurance tax revenue, which would reduce General Fund/General Purpose revenue, and 20% would be lost insurance regulatory fees. The bill would not have any direct impact on local governments.

Fiscal Analyst: Jay Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.