

SESSION OF 2023

SUPPLEMENTAL NOTE ON SENATE BILL NO. 25

As Amended by House Committee on Insurance

Brief*

SB 25, as amended, would amend a provision in the Insurance Code pertaining to the premium tax assessed for surplus lines business that is transacted on behalf of insureds (policyholders) whose home state is Kansas. The bill would reduce the prescribed tax rate from 6.0 percent to 2.0 percent.

Under current law, on March 1 of each year, licensed agents are required to collect and pay to the Commissioner of Insurance a tax of 6.0 percent on the total gross premiums charged, less any return premiums. The bill would amend this rate to 2.0 percent, commencing with the tax year beginning January 1, 2024.

The bill would be in effect upon publication in the *Kansas Register*.

Background

The bill was introduced by the Senate Committee on Financial Institutions and Insurance at the request of the Kansas Association of Insurance Agents (KAIA).

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

Senate Committee on Financial Institutions and Insurance

In the Senate Committee hearing, a representative of the KAIA provided **proponent** testimony, stating the bill would reduce the current rate of 6.0 percent, which presents an unnecessary burden on Kansas small businesses and consumers. The present rate is tied for the highest in the nation and in discussion, the average tax rate among states was an estimated 3.59 percent. The representative noted the reasons insurance must be placed with non-admitted carriers, including the flexibility to adjust policy terms and pricing for non-standard risks because of their size, operations type, complexity, loss history, or line of business.

Written-only proponent testimony was submitted by representatives of the Fee Insurance Agency, SPS Companies, and the Wholesale & Specialty Insurance Association.

The Senate Committee amended the bill to change the premium tax rate from 3.0 percent to 4.0 percent.

Senate Committee of the Whole

The Senate Committee of the Whole amended the bill to update the title to reflect the tax rate specified in the Senate Committee on Financial Institutions and Insurance amendment (4.0 percent).

House Committee on Insurance

In the House Committee hearing, a representative of the KAIA provided **proponent** testimony. Written-only proponent testimony was submitted by representatives of the Fee Insurance Agency, the Kansas Association of Property and Casualty Insurance Companies (KAPCIC), SPS Companies, and the Wholesale & Specialty Insurance Association. In

addition to the testimony previously presented, testimony submitted by KAPCIC noted the reduction in this tax rate would reduce the cost for many insured consumers in the state.

The House Committee amended the bill to change the premium tax rate from 4.0 percent to 2.0 percent.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, the Kansas Insurance Department states that in FY 2024 it expects to collect \$33.5 million in surplus lines tax revenues, which would then be deposited into the State General Fund (SGF). The Department estimates that surplus lines insurance tax collections would increase 10.0 percent in FY 2025, totaling \$36.9 million. The bill, as introduced, would decrease the tax from 6.0 percent to 3.0 percent; therefore, the Department estimates it would collect \$18.4 million ($\$36.9 \text{ million} \times 0.5$). This would decrease SGF revenues by \$18.4 million in FY 2025.

The bill, as amended by the House Committee, using the methodology provided in the original fiscal note, would reduce surplus lines tax collections by \$24.6 million at the 2.0 percent rate; therefore, the Department would collect \$12.3 million ($\$36.9 \text{ million collection estimate at } 6.0 \text{ percent}$) in FY 2025. Any fiscal effect associated with the bill is not reflected in *The FY 2024 Governor's Budget Report*.

Insurance; surplus lines; premium tax receipts