

LEGISLATIVE HISTORY CHECKLIST

NJSA: 54:18A-6

(Insurance companies
--taxation)

LAWS OF: 1985

CHAPTER: 294

Bill No: S2995

Sponsor(s): Caufield and others

Date Introduced: May 13, 1985

Committee: Assembly: -----

Senate: Labor, Industry and Professions

Amended during passage: Yes Amendments during passage denoted
by asterisks.

Date of Passage: Assembly: June 24, 1985

Senate: June 17, 1985

Date of Approval: August 15, 1985

Following statements are attached if available:

Sponsor statement: Yes

Committee statement: Assembly No

Senate Yes

Fiscal Note: No

Veto Message: No

Message on Signing: Yes

Following were printed:

Reports: No

Hearings: No

SENATE 294
 APPROVED 8-15-85

[OFFICIAL COPY REPRINT]
SENATE, No. 2995

STATE OF NEW JERSEY

INTRODUCED MAY 13, 1985

By Senators CAUFIELD, COWAN, FORAN, BASSANO
 and HAGEDORN

Referred to Committee on Labor, Industry and Professions

AN ACT concerning the taxation of insurance companies and
 amending P. L. 1945, c. 132.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
 2 *of New Jersey:*

1 1. Section 6 of P. L. 1945, c. 132 (C. 54:18A-6) is amended to
 2 read as follows:

3 6. In the event that the taxable premiums collected by any com-
 4 pany, as specified in sections 2 and 3 of this act, *and all of its*
 5 *affiliates as defined in the chapter entitled "Insurance Holding Com-*
 6 *pany Systems," P. L. 1970, c. 22 (C. 17:27A-1 et seq.), during any*
 7 *year ending December thirty-first, exceed twelve and one-half per-*
 8 *centum (12½%) of the total premiums collected by the company*
 9 *and all of its affiliates during the same year on all policies and*
 10 *contracts of insurance, whenever and wherever issued, the taxable*
 11 *premiums of such company shall not exceed a sum equal to twelve*
 12 *and one-half per centum (12½%) of such company's total premiums*
 13 *collected during the same year on all policies and contracts of in-*
 14 *surance, whenever and wherever issued, calculated as specified in*
 15 *sections 4 and 5 of this act; provided, however, a company to which*
 16 *section 2 of this act (C. 54:18A-2) applies shall in no event be*
 17 *deemed to be an affiliate of a company to which section 3 of this*
 18 *act (C. 54:18A-3) applies *and provided, further, that as to any*
 19 *company licensed in this State prior to January 1, 1984, the taxable*
 20 *premiums of that company shall be calculated without regard to the*
 21 *premiums collected by any affiliate*.*

1 2. This act shall take effect immediately.

Matter printed in italics *thus is new matter.*
 Matter enclosed in asterisks or stars has been adopted as follows:
 *—Senate committee amendment adopted June 17, 1985.

STATEMENT

The limitation on the maximum amount of premium tax payable was intended to be available to those insurance companies, domestic or foreign, which made a substantial commitment to New Jersey and contribution to its economy as evidenced by the percentage of overall business written in this State compared to elsewhere. Typically, insurance companies qualifying for the limitation had significant numbers of New Jersey employees providing service to policyholders and claimants residing here, paid substantial sums of real property taxes, maintained deposits in local banks, invested considerable funds in local securities and companies and generally contributed to the economy by utilizing other local services and businesses.

Since enactment of the law in 1945, insurance company holding systems or groups having several companies as affiliates or subsidiaries and writing in various locations in addition to New Jersey have emerged. Over recent years, several of these groups have centralized New Jersey business in a single affiliate so as to be able to technically qualify for the limitation provided by this section.

By reference to the New Jersey Insurance Holding Company Systems Act (C. 17:27A-1 *et seq.*, L. 1970, c. 22), this amendment takes into account the nature of operations of these largely out-of-state organizations while preserving the limitation on the maximum amount of premium tax payable for those groups and companies continuing to make a substantial commitment to New Jersey.

As modified, the preference provides insurance companies with incentive to voluntarily write significant amounts of business in New Jersey. Such an approach offers special potential as a useful tool in efforts to depopulate the New Jersey Full Insurance Underwriting Association.

This bill will close loopholes in the law which generate revenue to New Jersey Firemen's Relief Associations (C. 54:17-4 and C. 54:18-1 *et seq.*) and the insurance premium tax law (C. 54:18A-1 *et seq.*).

There are 511 Firemen's Relief Associations in New Jersey which administer relief funds for over 65,000 firemen throughout New Jersey. Revenues administered by these association are derived from assessments on fire insurance coverage written by certain

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insurance companies in areas served by the firemen members of the association. There are also death benefits paid to members of deceased firemen's families and this fund has been seriously depleted.

Over recent years, a number of insurance companies previously subject to such assessments have made changes in their structure which have resulted in a loss of revenue to the relief associations. This bill will remove the incentive for insurers to make changes in their corporate structure so that the associations will not lose further revenue.

SENATE LABOR, INDUSTRY AND PROFESSIONS
COMMITTEE

STATEMENT TO

SENATE, No. 2995

with Senate committee amendments

STATE OF NEW JERSEY

DATED: JUNE 13, 1985

This bill amends the insurance premium tax statute and closes a loophole by which some insurers have reduced their premium tax liability by forming affiliates or subsidiaries in this State to receive preferential tax treatment under that statute. Insurers, both foreign and domestic, pay a tax on premiums they earn writing insurance coverages in this State, with certain exceptions. This bill provides that an insurer writing insurance business in this State must not only include its own taxable premiums, wherever earned, but those of its affiliates in calculating its total worldwide premiums to determine whether it can qualify for the tax preference under the statute. The tax preference only becomes applicable when the taxable premiums of an insurer (and its affiliates) for coverages written in New Jersey exceed 12½% of the total worldwide taxable premiums collected by the insurer (and its affiliates). An insurer (and its affiliates) will only be exempt under the tax preference provision from paying the premium tax on that amount of the taxable premiums earned in New Jersey that exceeds 12½% of its worldwide taxable premiums.

The committee amended the bill to grandfather those companies licensed in this State prior to January 1, 1984 and, thereby, to allow them to calculate their taxable premiums without regard to the premiums collected by their affiliates.



OFFICE OF THE GOVERNOR

NEWS RELEASE

CN-001

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Release: THURS., AUGUST 15, 1985

Governor Thomas H. Kean today signed legislation appropriating \$8 million to help municipalities hire full-time firefighters, provide overtime compensation to firemen, or to purchase emergency firefighting equipment.

Kean signed the bill at a public ceremony held at the Burlington County Fire Training Academy in Westampton Township. The legislation, A-3561, was sponsored by Assemblyman John Girgenti, D-Passaic.

Kean also signed S-2995, sponsored by Senator John Caufield, D-Essex, to close a loophole in the State's insurance premium tax law which had permitted out-of-state companies to avoid premium taxes by establishing subsidiaries in New Jersey. One result of this loophole had been a decrease in revenue to the New Jersey Firemen's Relief Association, a group which pays death benefits to families of volunteer and paid firemen and maintains a nursing home for retired firemen.

Of the total \$8 million appropriation, \$5.2 million --- 65 percent --- will be allocated to the 42 municipalities eligible for funds under the State's Safe and Clean Neighborhoods Program. The remaining \$2.8 million will be allocated to 517 municipalities which qualify for the Safe and Clean Neighborhoods Programs but which are served by volunteer fire departments, or to municipalities which do not qualify for the Safe and Clean Neighborhoods Program.

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A-3561 AND S-2995 SIGNED

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"The protection of life and property is one of the most basic, fundamental responsibilities of government," Kean said. "While fire protection is essentially a function of local government, the State has an obligation to provide assistance when and where needed to assure that the people in a community are adequately served and protected."

"Firefighters --- whether paid or volunteer --- place themselves at risk each and every time an alarm sounds," Kean said. "And, they accept that risk in response to the highest calling of all --- the safety and protection of others."

The Governor noted that the presence in many areas of New Jersey of toxic or hazardous chemical sites "has brought an added element of risk to firefighting."

"Many of these substances, should they flare up, require other than conventional techniques to extinguish and it is vital that firefighting forces in these areas be at full manpower strength and be equipped with modern devices to battle such blazes," Kean said.

Under the terms of the appropriations bill, the 42 Safe and Clean Neighborhoods Program municipalities will be required to match the State aid on a one-to-four basis.

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A-3561 AND S-2995 SIGNED

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AUGUST 15, 1985

Municipalities which are not eligible for the Safe and Clean Neighborhoods Program and which maintain a paid or part paid fire department must match the State aid on a one-to-one basis. Municipalities which do qualify for the Safe and Clean Neighborhoods Program and are served by a volunteer fire department must match the State aid on a one-to-one basis.

The legislation requires, further, that Safe and Clean Neighborhoods municipalities served by a volunteer department must use the funds exclusively for the purchase of equipment.

The remaining municipalities may use the funds to hire additional firemen to purchase equipment, or to pay overtime costs.

The premium tax law bill signed by Kean corrects a problem which arose when out-of-state insurance companies formed New Jersey subsidiaries to handle New Jersey business, thus being able to qualify for a break on their premium tax liability.

It has been estimated that this loophole has resulted in a loss of State revenues of some \$30 million since 1982.

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