

**TAXATION OF SURPLUS LINES OF INSURANCE**

2011 GENERAL SESSION

STATE OF UTAH

**Chief Sponsor: Todd E. Kiser**

Senate Sponsor: Curtis S. Bramble

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**LONG TITLE**

**General Description:**

This bill modifies the Insurance Code to address the taxation of surplus lines of insurance including prohibiting local taxation and authorizing the commissioner to enter into certain agreements.

**Highlighted Provisions:**

This bill:

- ▶ prohibits local taxation of surplus lines insurance transactions;
- ▶ defines terms;
- ▶ authorizes the commissioner to enter into an agreement related to surplus lines insurance;
- ▶ addresses the collection of taxes and fees, if an agreement is entered into, for coverage of property, risks, or exposures located or to be performed in and out of this state; and
- ▶ makes technical and conforming amendments.

**Money Appropriated in this Bill:**

None

**Other Special Clauses:**

None

**Utah Code Sections Affected:**

AMENDS:



28 31A-3-301, as last amended by Laws of Utah 2005, Chapter 124

29 31A-3-303, as last amended by Laws of Utah 2003, Chapters 252 and 298

30 ENACTS:

31 31A-3-305, Utah Code Annotated 1953



33 *Be it enacted by the Legislature of the state of Utah:*

34 Section 1. Section 31A-3-301 is amended to read:

35 **31A-3-301. Tax imposed on surplus lines insurance transactions.**

36 (1) (a) An insurance transaction under Section 31A-15-103 is subject to a tax of  
37 4-1/4% of gross premiums, less 4-1/4% of return premiums paid to insureds by reason of policy  
38 cancellations or premium reductions.

39 (b) ~~[The gross]~~ "Gross premium," for a surplus lines insurance transaction, means the  
40 monetary consideration for an insurance policy including ~~[and]~~ the fees charged to the insured,  
41 however designated.

42 (2) The tax imposed by this section does not apply to:

43 (a) ocean marine insurance;

44 (b) insurance premiums paid by institutions within the state system of higher education  
45 as specified in Section 53B-1-102; or

46 (c) annuities.

47 (3) ~~[This tax shall be deposited]~~ The department shall deposit a tax imposed by this  
48 section in the General Fund.

49 (4) (a) A county, city, or municipality within the state may not impose an occupation  
50 tax or other tax or fee on a surplus lines insurance transaction.

51 (b) Notwithstanding Subsection (4)(a), an insurer, producer, or policyholder may be  
52 subject to other taxes not described in Subsection (4)(a).

53 Section 2. Section 31A-3-303 is amended to read:

54 **31A-3-303. Payment of tax.**

55 (1) ~~[The]~~ (a) An insurer, [and] the producers involved in the transaction, and the  
56 policyholder are jointly and severally liable for the payment of the taxes required under Section  
57 31A-3-301.

58 (b) The policyholder's liability for payment of the premium tax under Section

59 31A-3-301 ends when the policyholder pays the tax to ~~[the]~~ a producer or an insurer.

60 (c) The insurer and ~~[aH]~~ the producers involved in the transaction are jointly and  
61 severally liable for the payment of the additional tax required under Section 31A-3-302.

62 (d) Except for the tax under Section 31A-3-302, the ~~[taxes]~~ policyholder shall pay a tax  
63 under this part ~~[shall be paid by the policyholder who]~~ and shall be billed specifically for the  
64 tax when billed for the premium.

65 (e) Except for the tax imposed under Section 31A-3-302, absorption of the tax by the  
66 producer or insurer is an unfair method of competition under Section 31A-23a-402.

67 (2) (a) The commissioner shall by rule prescribe accounting and reporting forms and  
68 procedures for insurers, producers, and policyholders to use in determining the amount of taxes  
69 owed under this part, and the manner and time of payment.

70 (b) If a tax is not paid within the time prescribed under the commissioner's rule, a  
71 penalty shall be imposed of 25% of the tax due, plus 1-1/2% per month from the time of  
72 default until full payment of the tax.

73 (3) Upon making a record of its actions, and upon reasonable cause shown, the ~~[State~~  
74 ~~Tax Commission]~~ commissioner may waive, reduce, or compromise any of the penalties or  
75 interest imposed under this part.

76 (4) ~~[H]~~ (a) Subject to Section 31A-3-305, if a policy covers risks that are only partially  
77 located in this state, for computation of tax under this part the premium shall be reasonably  
78 allocated among the states on the basis of risk locations. However, ~~[aH]~~ the premiums with  
79 respect to surplus lines insurance received in this state by a surplus lines producer or charged  
80 on policies written or negotiated in or from this state are taxable in full under this part, subject  
81 to a credit for any tax actually paid in another state to the extent of a reasonable allocation on  
82 the basis of risk locations.

83 (5) ~~[A]~~ Subject to Section 31A-3-305, the premium taxes collected under this part by  
84 a producer or by an insurer are the property of this state.

85 (6) If the property of ~~[any]~~ a producer is seized under any process in a court in this  
86 state, or if ~~[his]~~ a producer's business is suspended by the action of creditors or put into the  
87 hands of an assignee, receiver, or trustee, ~~[aH]~~ the taxes and penalties due this state under this  
88 part are preferred claims and the state is to that extent a preferred creditor.

89 Section 3. Section **31A-3-305** is enacted to read:

90 **31A-3-305. Agreement related to nonadmitted insurance taxes.**

91 (1) As used in this section:

92 (a) "Agreement" means a cooperative agreement, reciprocal agreement, or compact  
93 with one or more other states.

94 (b) (i) "Home state," except as provided in Subsections (1)(b)(ii) and (iii), with respect  
95 to an insured, means:

96 (A) the state in which the insured maintains its principal place of business or, in the  
97 case of an individual, the individual's principal residence; or

98 (B) if 100% of the insured risk is located out of the state described in Subsection  
99 (1)(b)(i)(A), the state to which the greatest percentage of the insured's taxable premium for that  
100 insurance contract is allocated.

101 (ii) If more than one insured from an affiliated group are named insureds on a single  
102 nonadmitted insurance contract, "home state" means the home state determined under  
103 Subsection (1)(b)(i) of the member of the affiliated group that has the largest percentage of  
104 premium attributed to it under the nonadmitted insurance contract.

105 (iii) (A) When a group policyholder pays 100% of the premium from its own money,  
106 "home state" means the home state determined under Subsection (1)(b)(i) of the group policy  
107 holder.

108 (B) When a group policyholder does not pay 100% of the premium from its own  
109 money, "home state" means the home state determined under Subsection (1)(b)(i) of the group  
110 member.

111 (c) "Principal place of business," for purposes of determining the home state of an  
112 insured, means:

113 (i) the state where the insured maintains its headquarters and where the insured's  
114 high-level officers direct, control, and coordinate the business activities;

115 (ii) if the insured's high-level officers direct, control, and coordinate the business  
116 activities in more than one state, the state in which the greatest percentage of the insured's  
117 taxable premium for that insurance contract is allocated; or

118 (iii) if the insured maintains its headquarters or the insured's high-level officers direct,  
119 control, and coordinate the business activities outside any state, the state to which the greatest  
120 percentage of the insured's taxable premium for that insurance contract is allocated.

121 (d) "Principal residence," with respect to determining the home state of an insured,

122 means:

123 (i) the state where the insured resides for the greatest number of days during a calendar  
124 year; or

125 (ii) if the insured's principal residence is located outside any state, the state to which  
126 the greatest percentage of the insured's taxable premium for that insurance contract is allocated.

127 (2) The commissioner may enter into an agreement to:

128 (a) facilitate the collection, allocation, and disbursement of premium taxes attributable  
129 to the placement of nonadmitted insurance;

130 (b) provide for uniform methods of allocation and reporting among nonadmitted  
131 insurance risk classifications; and

132 (c) share information among states relating to nonadmitted insurance premium taxes.

133 (3) If the commissioner enters into an agreement under Subsection (2), the following  
134 apply:

135 (a) In addition to the full amount of gross premiums charged by the insurer for the  
136 insurance, a surplus lines producer shall collect and pay to the commissioner a sum based on  
137 the total gross premiums charged, less any return premiums, for surplus lines insurance  
138 provided by the surplus lines producer.

139 (b) When surplus lines insurance covers property, risks, or exposures located or to be  
140 performed in and out of this state, the sum payable is calculated as follows:

141 (i) calculate an amount equal to the applicable tax rates under this part on that portion  
142 of the gross premiums allocated to this state pursuant to the agreement;

143 (ii) add to the amount under Subsection (3)(b)(i) an amount equal to the portion of the  
144 premiums allocated to other states or territories on the basis of the tax rates and fees applicable  
145 to properties, risks, or exposures located or to be performed outside of this state pursuant to the  
146 agreement; and

147 (iii) subtract from the amount under Subsection (3)(b)(ii) the amount of gross  
148 premiums allocated to this state and returned to the insured.

149 (c) The tax on any portion of the premium unearned at termination of insurance having  
150 been credited by the state to the licensee shall be returned to the policyholder directly by the  
151 surplus lines producer. A surplus lines producer may not absorb or rebate, for any reason, any

152 part of the tax.

153 (4) The commissioner may participate in a clearinghouse established through an  
154 agreement described in Subsection (2) for the purpose of collecting or disbursing to reciprocal  
155 states any money collected pursuant to Subsection (3) applicable to properties, risks, or  
156 exposures located or to be performed outside of this state. To the extent that other states where  
157 portions of the properties, risks, or exposures reside have failed to enter into an agreement with  
158 this state, the state shall retain the net premium tax collected.

159 (5) The commissioner may adopt an allocation schedule included in an agreement  
160 described in Subsection (2) for the purpose of allocating risk and computing the tax due on the  
161 portion of premium attributable to each risk classification and to each state where properties,  
162 risks, or exposures reside.

163 (6) The commissioner may apply the definition of "home state" in Subsection (1) when  
164 implementing an agreement described in Subsection (2).

164a **§→ (7) The commissioner shall report to the Business and Labor Interim Committee**  
164b **regarding the nature and status of any agreement into which the commissioner enters under**  
164c **Subsection (2).** ←§

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Legislative Review Note  
as of 2-10-11 8:41 AM

Office of Legislative Research and General Counsel

# FISCAL NOTE

H.B. 316

SHORT TITLE: **Taxation of Surplus Lines of Insurance**

SPONSOR: **Kiser, T.**

2011 GENERAL SESSION, STATE OF UTAH

STATE GOVERNMENT (UCA 36-12-13(2)(b))

Enactment of this bill likely will not materially impact the state budget.

LOCAL GOVERNMENTS (UCA 36-12-13(2)(c))

Enactment of this bill likely will not result in direct, measurable costs for local governments.

DIRECT EXPENDITURES BY UTAH RESIDENTS AND BUSINESSES (UCA 36-12-13(2)(d))

Enactment of this bill likely will not result in direct, measurable expenditures by Utah residents or businesses.