NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 236

SHORT TITLE: No Insurance Surcharge/Up Premium Tax

SPONSOR(S): Committee Substitute

FISCAL IMPACT: **Expenditures:** **Increase (**X **)** **Decrease ( )**
Revenues: **Increase (**X**)** **Decrease ( )**
No Impact ( )
No Estimate Available ( )

FUND AFFECTED: General Fund (X**)** **Highway Fund ( )** **Local Govt. ( )**
Other Funds (X**)** (Department of Insurance Fund)

BILL SUMMARY: The bill would repeal the insurance tax surcharge that is now used to fund the Department of Insurance and several other smaller appropriations. Currently, surcharge receipts are deposited in the Department of Insurance Fund. The bill eliminates this fund, but requires that amounts available within the fund at the time of repeal be used for the purposes for which the Fund was established. By eliminating the Fund and the surcharge, the bill would require that the expenditures that would have been funded by the surcharge be funded by the General Fund. To partially offset the cost to the General Fund, insurance premium tax rates (except the rate applied to medical service corporations) are raised by five-tenths of one percentage point.

EFFECTIVE DATE: January 1, 1996.

FISCAL IMPACT

	95-96	**96-97**	**97-98**	**98-99**	**99-00**
GENERAL FUND (in $millions)					
Expenditures					
Dept. of Insurance	$15.1	$19.6	$19.6	$19.6	$19.6
Reserve Offset	-$10.0	$0.0	$0.0	$0.0	$0.0
Net Increase	$5.1	$19.6	$19.6	$19.6	$19.6
Revenues	$3.5	$5.5	$5.7	$6.0	$6.2
Net change in General Fund requirements	**$1.6**	**$14.1**	**$13.9**	**$13.6**	**$13.4**

ASSUMPTIONS AND METHODOLOGY: Based on House and Senate action to date on the FY 1995-96 continuation budget, it is estimated that spending to be financed by the surcharge during FY 1995-96 would require collections of $19.6 million. This $19.6 million is derived as follows:

Surcharge-Financed Requirements	$(Millions)
Continuation Budget Request	$15.3
Eliminate Audit and Exam Fees	+4.5
Funding Reductions	-0.7
Fund AG Office Attorneys	+0.5
Total	$19.6

As such, it is assumed that the 1996 surcharge would be set at a rate that would produce $19.6 million in revenue. The $19.6 million figure includes $1,000,000 for the Consumer Protection Fund, which would no longer be funded under the Department of Insurance, but would continue to be funded by the surcharge.

Because the surcharge would not be eliminated until January 1, 1996, revenue from the charge would continue to be received for part of FY 1995-96. The Department of Insurance estimates that $4.5 million would be available from the surcharge during FY 1995-96, even if the surcharge were eliminated beginning in 1996. This revenue would be available to cover part of the $19.6 million in FY 1995-96 costs. In addition, the Department of Insurance Fund is expected to have a reserve of $10 million at the beginning of FY 1995-96, which could be used to finance part of the remaining cost. As a result, only $5.1 million of the $19.6 million funded by the surcharge would need to be funded from the General Fund during FY 1995-96. Because the surcharge will have been eliminated and the reserve will be depleted by the beginning of FY 1996-97, the full cost will be borne by the General Fund from this point forward.

The increase in the gross premiums tax rates will also take effect on January 1, 1996. As a result, the new tax rates will apply to only two of three premiums tax installment payments due during FY 1995-96. The additional revenue expected to be generated from the rate increases during FY 1995-96 is $3.5 million. When the full annual effect of the rate increase is felt during FY 1996-97, the amount of additional revenue generated will grow to $5.5 million. After FY 1996-97, the amount of additional revenue is assumed to grow by 4 percent each year for the remainder of the five-year impact period.

FISCAL RESEARCH DIVISION: 733-4910
PREPARED BY: Karl Knapp
APPROVED BY: Tom Covington **TomC**
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