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SENATE BILL DRS55018-MRxf-8B*

Short Title: Gross Premium Tax/PHPs. (Public)

Sponsors: Senator Hise (Primary Sponsor).

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO SUBJECT PREPAID HEALTH PLANS LICENSED BY THE DEPARTMENT
3 OF INSURANCE TO THE GROSS PREMIUM TAX.

4 The General Assembly of North Carolina enacts:

5 SECTION 1.(a) The title of Article 8B of Chapter 105 of the General Statutes reads
6 as rewritten:

7 "Article 8B.

8 Taxes Upon Insurance ~~Companies.~~ Companies and Prepaid Health Plans."

9 SECTION 1.(b) G.S. 105-228.3 reads as rewritten:

10 "§ 105-228.3. Definitions.

11 The following definitions apply in this Article:

12 (1) Article 65 corporation. – A corporation subject to Article 65 of Chapter 58 of
13 the General Statutes, regulating hospital, medical, and dental service
14 corporations.

15 ~~(1a)~~(2) Captive insurance company. – Defined in G.S. 58-10-340.

16 (3) Capitation payment. – As defined in 42 CFR 438.2.

17 ~~(1b)~~(4) Foreign captive insurance company. – A captive insurance company as
18 defined in G.S. 58-10-340(9), except that such company is not formed or
19 licensed under the laws of this State but is formed and licensed under the laws
20 of any jurisdiction within the United States other than this State.

21 ~~(2)~~(5) Insurer. – An insurer as defined in G.S. 58-1-5 or a group of employers who
22 have pooled their liabilities pursuant to G.S. 97-93 of the Workers'
23 Compensation Act.

24 (6) Prepaid Health Plan. – An entity holding a prepaid health plan license under
25 Article 93 of Chapter 58 of the General Statutes.

26 ~~(3)~~(7) Self-insurer. – An employer that carries its own risk pursuant to G.S. 97-93 of
27 the Workers' Compensation Act."

28 SECTION 1.(c) G.S. 105-228.5 reads as rewritten:

29 "§ 105-228.5. Taxes measured by gross premiums.

30 (a) Tax Levied. – A tax is levied in this section on insurers, Article 65 corporations, health
31 maintenance organizations, prepaid health plans, and self-insurers. An insurer, health
32 maintenance organization, prepaid health plan, or Article 65 corporation that is subject to the tax
33 levied by this section is not subject to franchise or income taxes imposed by Articles 3 and 4,
34 respectively, of this Chapter.

35 (b) Tax Base. –



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- 1 (1) Insurers. – The tax imposed by this section on an insurer or a health
2 maintenance organization shall be measured by gross premiums from business
3 done in this State during the preceding calendar year.
- 4 (2) Repealed by Session Laws 2006-196, effective for taxable years beginning on
5 or after January 1, 2008.
- 6 (3) Article 65 Corporations. – The tax imposed by this section on an Article 65
7 corporation shall be measured by gross collections from membership dues,
8 exclusive of receipts from cost plus plans, received by the corporation during
9 the preceding calendar year.
- 10 (4) Self-insurers. – The tax imposed by this section on a self-insurer shall be
11 measured by the gross premiums that would be charged against the same or
12 most similar industry or business, taken from the manual insurance rate then
13 in force in this State, applied to the self-insurer's payroll for the previous
14 calendar year as determined under Article 36 of Chapter 58 of the General
15 Statutes modified by the self-insurer's approved experience modifier.
- 16 (5) Prepaid Health Plans. – The tax imposed by this section on a prepaid health
17 plan shall be measured by gross capitation payments received by the prepaid
18 health plan from the Department of Health and Human Services for services
19 provided to enrollees in the State Medicaid program or NC Health Choice
20 program in the preceding calendar year.

21 (b1) Calculation of Tax Base. – In determining the amount of gross premiums from
22 business in this State, all gross premiums received in this State, credited to policies written or
23 procured in this State, or derived from business written in this State shall be deemed to be for
24 contracts covering persons, property, or risks resident or located in this State unless one of the
25 following applies:

- 26 (1) The premiums are properly reported and properly allocated as being received
27 from business done in some other nation, territory, state, or states.
- 28 (2) The premiums are from policies written in federal areas for persons in military
29 service who pay premiums by assignment of service pay.

30 Gross premiums from business done in this State in the case of life insurance contracts,
31 including supplemental contracts providing for disability benefits, accidental death benefits, or
32 other special benefits that are not annuities, means all premiums collected in the calendar year,
33 other than for contracts of reinsurance, for policies the premiums on which are paid by or credited
34 to persons, firms, or corporations resident in this State, or in the case of group policies, for
35 contracts of insurance covering persons resident within this State. The only deductions allowed
36 shall be for premiums refunded on policies rescinded for fraud or other breach of contract and
37 premiums that were paid in advance on life insurance contracts and subsequently refunded to the
38 insured, premium payer, beneficiary or estate. Gross premiums shall be deemed to have been
39 collected for the amounts as provided in the policy contracts for the time in force during the year,
40 whether satisfied by cash payment, notes, loans, automatic premium loans, applied dividend, or
41 by any other means except waiver of premiums by companies under a contract for waiver of
42 premium in case of disability.

43 Gross premiums from business done in this State in the case of prepaid health plans means
44 all capitation payments received by a prepaid health plan from the Department of Health and
45 Human Services for services provided to enrollees in the State Medicaid program or NC Health
46 Choice program in the calendar year. Capitation payments refunded by a prepaid health plan to
47 the State are the only allowable deductions.

48 Gross premiums from business done in this State for all other health care plans and contracts
49 of insurance, including contracts of insurance required to be carried by the Workers'
50 Compensation Act, means all premiums written during the calendar year, or the equivalent
51 thereof in the case of self-insurers under the Workers' Compensation Act, for contracts covering

1 property or risks in this State, other than for contracts of reinsurance, whether the premiums are
2 designated as premiums, deposits, premium deposits, policy fees, membership fees, or
3 assessments. Gross premiums shall be deemed to have been written for the amounts as provided
4 in the policy contracts, new and renewal, becoming effective during the year irrespective of the
5 time or method of making payment or settlement for the premiums, and with no deduction for
6 dividends whether returned in cash or allowed in payment or reduction of premiums or for
7 additional insurance, and without any other deduction except for return of premiums, deposits,
8 fees, or assessments for adjustment of policy rates or for cancellation or surrender of policies.

9 (c) Exclusions. – Every insurer, in computing the premium tax, shall exclude all of the
10 following from the gross amount of premiums, and the gross amount of excluded premiums is
11 exempt from the tax imposed by this section:

12 (1) All premiums received on or after July 1, 1973, from policies or contracts
13 issued in connection with the funding of a pension, annuity, or profit-sharing
14 plan qualified or exempt under section 401, 403, 404, 408, 457 or 501 of the
15 Code as defined in G.S. 105-228.90.

16 (2) Premiums or considerations received from annuities, as defined in
17 G.S. 58-7-15.

18 (3) Funds or considerations received in connection with funding agreements, as
19 defined in G.S. 58-7-16.

20 (4) The following premiums, to the extent federal law prohibits their taxation
21 under this Article:

22 a. Federal Employees Health Benefits Plan premiums.

23 b. ~~Medicaid or Medicare~~ premiums.

24 c. Medicaid premiums, other than capitation payments, paid by or on
25 behalf of a Medicaid beneficiary.

26 (d) Tax Rates; Disposition. –

27 (1) Workers' Compensation. – The tax rate to be applied to gross premiums, or
28 the equivalent thereof in the case of self-insurers, on contracts applicable to
29 liabilities under the Workers' Compensation Act is two and five-tenths percent
30 (2.5%). The net proceeds shall be credited to the General Fund.

31 (2) Other Insurance Contracts. – The tax rate to be applied to gross premiums on
32 all other taxable contracts issued by insurers or health maintenance
33 organizations and to be applied to gross premiums and gross collections from
34 membership dues, exclusive of receipts from cost plus plans, received by
35 Article 65 corporations is one and nine-tenths percent (1.9%). The net
36 proceeds shall be credited to the General Fund.

37 (2a) Prepaid Health Plans. – The tax rate to be applied to gross premiums is one
38 and nine-tenths percent (1.9%). The net proceeds shall be credited to the
39 General Fund.

40 (3) Additional Rate on Property Coverage Contracts. – An additional tax at the
41 rate of seventy-four hundredths percent (0.74%) applies to gross premiums on
42 insurance contracts for property coverage. The tax is imposed on ten percent
43 (10%) of the gross premiums from insurance contracts for automobile
44 physical damage coverage and on one hundred percent (100%) of the gross
45 premiums from all other contracts for property coverage. Twenty percent
46 (20%) of the net proceeds of this additional tax must be credited to the
47 Volunteer Fire Department Fund established in Article 87 of Chapter 58 of
48 the General Statutes. Twenty percent (20%) of the net proceeds must be
49 credited to the Department of Insurance for disbursement pursuant to
50 G.S. 58-84-25. Up to twenty percent (20%), as determined in accordance with
51 G.S. 58-87-10(f), must be credited to the Workers' Compensation Fund. The

1 remaining net proceeds must be credited to the General Fund. The additional
2 tax imposed on property coverage contracts under this subdivision is a special
3 purpose assessment based on gross premiums and not a gross premiums tax.

4 The following definitions apply in this subdivision:

5 a. Automobile physical damage. – The following lines of business
6 identified by the NAIC: private passenger automobile physical
7 damage and commercial automobile physical damage.

8 b. Property coverage. – The following lines of business identified by the
9 NAIC: fire, farm owners multiple peril, homeowners multiple peril,
10 nonliability portion of commercial multiple peril, ocean marine, inland
11 marine, earthquake, private passenger automobile physical damage,
12 commercial automobile physical damage, aircraft, and boiler and
13 machinery. The term also includes insurance contracts for wind
14 damage.

15 c. NAIC. – National Association of Insurance Commissioners.

16 (4) Repealed by Session Laws 2006-196, effective for taxable years beginning on
17 or after January 1, 2008.

18 (5) Repealed by Session Laws 2003-284, s. 43.1, effective for taxable years
19 beginning on or after January 1, 2004.

20 (6) Repealed by Session Laws 2005-276, s. 38.4(a), effective for taxable years
21 beginning on or after January 1, 2007.

22 (e) Report and Payment. – Each taxpayer doing business in this State shall, within the
23 first 15 days of March, file with the Secretary of Revenue a full and accurate report of the total
24 gross premiums as defined in this section, the payroll and other information required by the
25 Secretary in the case of a self-insurer, or the total gross collections from membership dues
26 exclusive of receipts from cost plus plans collected in this State during the preceding calendar
27 year. The taxes imposed by this section shall be remitted to the Secretary with the report.

28 (f) Installment Payments Required. – Taxpayers that are subject to the tax imposed by
29 this section and have a premium tax liability of ten thousand dollars (\$10,000) or more for
30 business done in North Carolina during the immediately preceding year shall remit three equal
31 quarterly installments with each installment equal to at least thirty-three and one-third percent
32 (33 1/3%) of the premium tax liability incurred in the immediately preceding taxable year. The
33 quarterly installment payments shall be made on or before April 15, June 15, and October 15 of
34 each taxable year. The ~~company~~ taxpayer shall remit the balance by the following March 15 in
35 the same manner provided in this section for annual returns.

36 The Secretary may permit an insurance company or prepaid health plan to pay less than the
37 required estimated payment when the insurer or prepaid health plan reasonably believes that the
38 total estimated payments made for the current year will exceed the total anticipated tax liability
39 for the year.

40 An underpayment or an overpayment of an installment payment required by this subsection
41 accrues interest in accordance with G.S. 105-241.21. An overpayment of tax shall be credited to
42 the ~~company~~ taxpayer and applied against the taxes imposed upon the ~~company~~ taxpayer under
43 this Article.

44 (g) Exemptions. – This section does not apply to farmers' mutual assessment fire
45 insurance companies or to fraternal orders or societies that do not operate for a profit and do not
46 issue policies on any person except members. This section does not apply to a captive insurance
47 company taxed under G.S. 105-228.4A."

48 **SECTION 2.** In accordance with Section 8(d) of S.L. 2018-49, the provisions of
49 G.S. 143C-5-2 do not apply to this act.

50 **SECTION 3.** This act is effective October 1, 2019, and applies to capitation
51 payments received by prepaid health plans on or after that date.