Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

Date: February 3, 2017
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H.85 Captive Insurance Regulation Changes

This bill proposes a number of changes to the regulation of captive insurance companies domiciled in Vermont in order to attract new business and remain competitive with other domicile jurisdictions.

As part of this effort, the bill changes the tax structure for newly formed captives in Vermont by restructuring the premium tax credit. Under current law, a new captive may reduce the amount of insurance premiums tax due *in the first year only*, by $7,500 (the premium tax credit amount). Every year thereafter, the full amount of tax is due.

Current Law Captive Insurance Premiums Tax [1]

Volume $ millions	Direct Premiums Rate (%)	Reinsurance Rate (%)
0 - 20	0.38	0.214
20 - 40	0.285	0.143
40 - 60	0.19	0.048
60 and over	0.072	0.024

[1] The average tax paid is $40,000 per year and a newly formed captive is eligible for a premium tax credit of $7,500 in the first year.

This proposal instead offers a $5,000 premiums tax credit for the first ***two*** years. This increases the amount of the premium tax credit available for each new captive to $10,000 or a $2,500 tax credit increase per company. The result is a $62,500 reduction in premiums tax revenue collected, if 25 new captives are formed in Vermont each year. (The first year only results in a net increase in revenue because of the reduction from $7,500 to $5,000 in the premium credit amount.) Vermont receives approximately $24 million per year from the captive insurance premiums tax.

If new, smaller captives are registered here as a result of the lower upfront costs of domiciling in Vermont, some of the loss may be offset, depending on the number, size and growth of these companies.

The other provisions in the legislation do not directly affect state revenue collections.