

S .B. NO. 1409

JAN 22 2007

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**A BILL FOR AN ACT**

RELATING TO CAPTIVE INSURANCE.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Section 431:19-116, Hawaii Revised Statutes, is  
2 amended by amending subsection (a) to read as follows:

3           "(a) Each captive insurance company licensed to do business  
4 in this State shall pay to the director of finance through the  
5 commissioner a tax on gross premiums on or before March 1 of each  
6 year, as follows:

7           (1) .25 per cent on \$0 to \$25,000,000 of gross premiums for  
8 insurance written on all risks or property resident,  
9 situated, or located within this State, and on risks  
10 and property situated elsewhere upon which no premium  
11 tax is otherwise paid during the year ending on the  
12 preceding December 31, less return premiums and less  
13 any reinsurance accepted;

14           (2) .15 per cent on more than \$25,000,000, to \$50,000,000  
15 of gross premiums for insurance written on all risks or  
16 property resident, situated, or located within this  
17 State, and on risks and property situated elsewhere

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1 upon which no premium tax is otherwise paid during the  
2 year ending on the preceding December 31, less return  
3 premiums and less any reinsurance accepted; and


4 (3) .05 per cent on more than \$50,000,000 of gross premiums  
5 for insurance written on all risks or property  
6 resident, situated, or located within this State, and  
7 on risks and property situated elsewhere upon which no  
8 premium tax is otherwise paid during the year ending on  
9 the preceding December 31, less return premiums and  
10 less any reinsurance accepted.

11 Notwithstanding paragraphs (1), (2), and (3), the annual maximum  
12 aggregate tax on gross premiums to be paid by a captive insurance  
13 company shall not exceed \$200,000."

14 SECTION 2. New statutory material is underscored.

15 SECTION 3. This Act shall take effect on July 1, 2007.

17 INTRODUCED BY:

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17   
18 BY REQUEST

JUSTIFICATION SHEET

DEPARTMENT: Commerce and Consumer Affairs

TITLE: A BILL FOR AN ACT RELATING TO CAPTIVE INSURANCE.

PURPOSE: To establish a \$200,000 maximum annual premium tax paid by captive insurance companies licensed by the DCCA.

MEANS: Amend section 431:19-116(a), Hawaii Revised Statutes.

JUSTIFICATION: The current tax structure for Hawaii captives provides for a descending rate that is applied to the amount of annual premiums written by a captive licensee. The first \$25 million in premium is taxed at 0.25 per cent, the next \$25 million at 0.15 per cent, and premiums over \$50 million at 0.10 per cent.

Establishing a maximum annual premium tax payment for captives would encourage more business to be conducted with and premiums to be written through Hawaii captives, as well as make Hawaii's captive tax structure comparable with several other competing U.S. captive jurisdictions that have imposed similar annual maximum premium tax limits.

Proceeds from captive premium taxes are used to fund the Captive Insurance Administration Fund, which in turn is used to fund the mandated regulatory and promotional activities of the Captive Insurance Administration Branch. The proposed annual maximum tax of \$200,000 is anticipated to be sufficient to provide for prudent regulatory oversight of captive licensees, as well as, the continuing promotion and development of the industry.

Impact on the public: The anticipated impact on the general public is minimal, if any at all. There is potential for a substantial increase in captive business with more premiums written through existing captives, and/or implementation of larger captives that provide for coverages like employee benefits.

Impact on the department and other agencies:  
None.

GENERAL FUND:

None.

OTHER FUNDS:

No material impact anticipated on Captive Insurance Administrative Fund

PPBS PROGRAM  
DESIGNATION:

CCA-106

OTHER AFFECTED  
AGENCIES:

None.

EFFECTIVE DATE:

July 1, 2007.