



Legislative  
Council Staff

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# FISCAL NOTE

**Drafting Number:** LLS 20-0224  
**Prime Sponsors:**

**Date:** October 24, 2019  
**Bill Status:** Bill Request  
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**Bill Topic:** FRATERNAL SOCIETY INSURANCE PREMIUM TAX EXEMPTION

**Summary of Fiscal Impact:**

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input type="checkbox"/> Statutory Public Entity

This bill eliminates the insurance premium tax exemption for fraternal societies, which will increase General Fund revenue by \$0.77 million in FY 2020-21 and \$1.54 million annually thereafter.

**Appropriation Summary:** No appropriation is required.

**Fiscal Note Status:** This fiscal note reflects the bill draft requested by the Tax Expenditure Evaluation Interim Study Committee.

**Table 1**  
**State Fiscal Impacts Under Bill 1**

		FY 2020-21	FY 2021-22
<b>Revenue</b>	General Fund	\$0.77 million	\$1.54 million
<b>Expenditure</b>		-	-
<b>Transfer</b>		-	-
<b>TABOR Refund</b>	General Fund	\$0.77 million	\$1.54 million

## Summary of Legislation

Beginning January 1, 2021, this bill eliminates the insurance premium tax exemption for fraternal societies that offer insurance products to their members.

## Background

Fraternal societies, which are social groups organized around a common bond, that offer insurance products to their members are exempt from the state's insurance premium tax. In 2018, 42 fraternal societies were licensed to write insurance policies in Colorado.

Table 2 shows the premiums collected by fraternal societies in 2018 and whether or not the insurance product is subject to the insurance premium tax.

**Table 2**  
**Insurance Products Sold by Fraternal Companies**

<b>Type of Product</b>	<b>Taxable</b>	<b>Direct Written Premiums</b>
Accident and Health	Yes	\$14,096,000
Individual Annuities	No	\$82,866,000
Individual Life Insurance	Yes	\$63,106,000
Deposit-Type Funds	No	\$6,914,000
	<b>Total</b>	<b>\$166,983,000</b>
	<b>Taxable Total</b>	<b>\$77,202,000</b>

*Source: Division of Insurance, Department of Regulatory Agencies.*

Pursuant to Senate Bill 16-203, the Office of the State Auditor published its evaluation of the expenditure in January 2019. The evaluation is available online here: [https://leg.colorado.gov/sites/default/files/2019-te2\\_fraternal\\_society\\_exemption.pdf](https://leg.colorado.gov/sites/default/files/2019-te2_fraternal_society_exemption.pdf)

## State Revenue

Eliminating the insurance premium tax exemption will increase state General Fund revenue by \$0.8 million in FY 2020-21 and \$1.54 million annually starting in FY 2021-22.

Applying the 2 percent insurance premium tax rate to the \$77.2 million in taxable premiums of insurance products sold by fraternal societies results in a \$1.54 million annual increase in General Fund Revenue. The FY 2020-21 impact represents six months of insurance premiums.

## State Expenditures

The Division of Insurance in the Department of Regulatory Agencies collects and administers insurance premium taxes on policies issued in Colorado. It is assumed any workload for the division to implement the bill will be minimal.

**TABOR refund.** The bill is expected to increase state General Fund obligations for TABOR refunds by \$0.8 million in FY 2020-21 and \$1.54 million in FY 2021-22. Under current law and the September 2019 Legislative Council Staff forecast, the measure will correspondingly increase the amount refunded to taxpayers via sales tax refunds made available on income tax returns for tax years 2021 and 2022, respectively.

**Effective Date**

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed. The bill impacts insurance premium tax collections starting January 1, 2021.

**State and Local Government Contacts**

Information Technology  
Revenue

Personnel  
State Auditor

Regulatory Agencies

