

Legislative Analysis



EXEMPT HMOS FROM INSURANCE COMPANY PREMIUMS TAX

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4950 as introduced
Sponsor: Rep. Hank Vaupel

Analysis available at
<http://www.legislature.mi.gov>

House Bill 5047 as introduced
Sponsor: Rep. Hank Vaupel

Committee: Tax Policy
Complete to 10-3-17

SUMMARY:

HB 4950 would amend the Income Tax Act to exempt health maintenance organizations (HMOs) from the insurance company gross premiums tax. The exemption would apply to health maintenance organizations authorized in accordance with state statute.

HB 5047 would amend the act's definition of "insurance company" to exclude HMOs.

Both bills would be retroactive and effective for tax years that begin on and after January 1, 2016.

The bills are tie-barred, meaning that neither could take effect unless both are enacted into law.

MCL 206.635 and 206.607

BRIEF BACKGROUND:

According to a notice from the Department of Treasury, the recent enactment of 2016 PA 276 created uncertainty regarding the tax treatment of HMOs under the Corporate Income Tax (CIT). Prior to enactment, HMOs were generally subject to the 6% corporate income tax under the CIT. Only "authorized insurers" are subject to the 1.25% tax on gross premiums under the CIT. PA 276, among other changes, classified HMOs as "insurers" under the Insurance Code. This created uncertainty as to whether HMOs, as "insurers", were also "authorized insurers" for purposes of the CIT.

According to the Department of Insurance and Financial Services, HMOs are not "authorized insurers." As such, they are not subject to the gross premiums tax and are subject to the CIT's corporate income tax, to the extent that HMOs are otherwise required to pay the CIT.¹

¹ See "Notice to Taxpayers Regarding Tax Treatment of HMOs Under the Corporate Income Tax." Michigan Department of Treasury, 5-18-17; available online: https://www.michigan.gov/documents/treasury/Notice_to_Taxpayers_re_HMOs_under_Corporate_Income_Tax_571473_7.pdf

FISCAL IMPACT:

The bill would have no fiscal impact because it would simply codify Treasury's current interpretation that HMOs are subject to the 6% corporate income tax as opposed to the 1.25% tax on gross premiums.

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