

Arkansas Insurance Department

Asa Hutchinson
Governor



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Commissioner

INSURER PREMIUM TAX CREDITS TO THE 2.5% ARKANSAS INSURANCE PREMIUM TAX

This document is intended to identify the credits or offsets provided to insurers (including health maintenance organizations) against the Arkansas insurance premium tax levied under Ark. Code Ann. § 26-57-603(d), and otherwise variously referenced and applied in the Arkansas Insurance Code and Privilege Tax subchapter.

Both domestic and foreign insurers, including health maintenance organizations, are taxed at a rate of 2.5% on direct premium income written on Arkansas risks. These taxes are paid by the insurer on a quarterly estimate basis to the Arkansas Insurance Department ("AID") and are reconciled annually on March 1 with the filing of the insurer's annual report.

Each credit is briefly described below, noting the statutory authority for the credit, the type of insurance line it is available to, the limits and carry forward basis, if any, to the offset.

The last page of this document shows the dollar amount of credits claimed against the Premium Tax. Please note that premium taxes collected by the Department are not used to fund AID operations.

The money appropriated to the Arkansas Insurance Department is derived from fees collected from the insurance industry and deposited in the Insurance Department Trust Fund. Any overages in the trust fund beyond the amount of funding appropriated for AID operations is transferred to the Department of Finance and Administration.

Permitted Offsets or Credits

The Arkansas Salaries Credit Allowance (or “Home Office Credit”)

<u>Authority:</u>	Ark. Code Ann. § 26-57-604. (Enacted 1959)
<u>Description:</u>	Life, Health and Disability Insurers, including HMOs, are entitled to a credit against the 2.5% premium tax equal to the noncommissioned salaries and wages of the insurer's Arkansas based employees which are paid in connection with its insurance operations. An employee must be employed for six (6) months in the facilities for the salary or wages to be eligible to qualify for the life or disability premium tax credit.
<u>Limitation of Credit:</u>	For Health and Disability Insurers, including HMOs, the offset may not reduce the premium tax by more than 80%. For Life Insurers, the offset may not reduce the premium tax by more than 70%.
<u>Lines Permitted:</u>	Life, Health and Disability.

The Arkansas New Market Jobs Credit

<u>Authority:</u>	Ark. Code Ann. § 15-4-3601. (Enacted 2013)
<u>Description:</u>	Insurers are permitted an offset against premium taxes for investments made by Qualified Community Development Entities (“QCDEs”) under Arkansas Act 1474 of 2013, known as the “New Market Jobs Act.” QCDEs make investments in corporations, limited liability companies, associations, and other business entities meeting the definition of “qualified active low-income community businesses.” The qualification for such credit and amount of such allowance or credit is certified and regulated by the Arkansas Economic Development Commission (“AEDC”). These tax credit allowances are established in staggered annual percentages by the AEDC. The credits are sold by QCDEs to insurers who utilize the credits to offset premium taxes.
<u>Limitation of Credit:</u>	The offset or credit allowed may not exceed the amount of premium tax. The credit or offset may be carried forward for nine (9) years.
<u>Lines Permitted:</u>	Property & Casualty, Life and Disability Insurance. The offset is not permitted for Health Insurance pursuant to New Market Jobs Act.

The Low Income Housing Tax Credit

<u>Authority:</u>	Ark. Code Ann. § 26-51-1702. (Enacted 1986)
<u>Description:</u>	Insurers are permitted an offset to premium taxes for ownership of a qualified low income housing project under the Arkansas Low Income Housing Tax Credit Act, codified in Ark. Code Ann. §§ 26-51-1701 et seq. The Arkansas low income housing tax credit, which is available for qualified projects as determined eligible by the Arkansas Development Finance Authority, is calculated by multiplying an amount equal to the federal low income housing tax credit for a qualified project for a federal tax period by twenty percent (20%), and such amount is subtracted from the amount of state income or premium tax otherwise due from the taxpayer for the same tax period.
<u>Limitation of Credit:</u>	The tax credit may not exceed two hundred fifty thousand dollars (\$250,000) in any taxable year. The tax credit allowance may be carried forward for five (5) years.
<u>Lines Permitted:</u>	All Lines.

The Arkansas Historic Rehabilitation Income Tax Credit

<u>Authority:</u>	Ark. Code Ann. §§ 26-57-604(c) and 26-51-2201 et seq. (Enacted 2009)
<u>Description:</u>	Insurers are permitted an offset to premium taxes for the amount of the Arkansas historic rehabilitation income tax credit certified by the Department of Arkansas Heritage under the Arkansas Historic Rehabilitation Income Tax Credit Act, § 26-51-2201 et seq.
<u>Limitation of Credit:</u>	The offset may not exceed the amount of premium tax due. The credit of offset may be carried forward for five (5) years.
<u>Lines Permitted:</u>	All Lines.

The Arkansas Life and Health Guaranty Association Credit

<u>Authority:</u>	Ark. Code Ann. § 23-96-115. (Enacted 1989)
<u>Description:</u>	Life, Health and Disability Insurers are permitted an offset to premium taxes for assessments paid by the insurer under Arkansas Life and Health Guaranty Association Act requirements, as set out in Ark. Code Ann. §§ 23-96-101 et seq. Under the Life and Health Guaranty Association Act, insurers are required to pay assessments to cover claims of insolvent Life, Health and Disability Insurers.
<u>Limitation of Credit:</u>	The offset for an insurer may not exceed twenty percent (20%) of the amount of assessment for each of the five (5) calendar years following the year in which the assessment was paid.
<u>Lines Permitted:</u>	Life, Health and Disability.

Equity Investment Tax Credit

<u>Authority:</u>	Ark. Code Ann. § 15-4-1302. (Enacted 2007)
<u>Description:</u>	Act 566 of 2007, now codified in Ark. Code Ann. §§ 15-4-1301 et seq., provides an income tax credit to persons or companies investing in certain types of eligible businesses. Award of this credit shall be at the discretion of the Director of the Arkansas Economic Development Commission.
<u>Limitation of Credit:</u>	The credit is equal to 33 1/3 % of the actual purchase price paid for the equity interest to the business. The credit is limited to 50% of the state income tax or premium tax liability of the taxpayer after all other credits and reductions in tax have been calculated. Any unused credits may be carried forward nine (9) years.
<u>Lines Permitted:</u>	All Lines.

Retaliatory Tax Credit

<u>Authority:</u>	Ark. Code Ann. § 23-63-116. (Enacted 2015)
<u>Description:</u>	Domiciled Property and Casualty Insurers (formed in Arkansas), however, also operating outside this State, are permitted an offset to premium taxes for

payment in other States of retaliatory premium taxes. This tax credit relates to retaliatory “premium taxes” imposed by other States.

Limitation of Credit: None.

Lines Permitted: All Lines of Domestic Insurers transacting Property and Casualty Insurance.

Retaliatory Fees Tax Credit

Authority: Ark. Code Ann. § 26-57-615. (Enacted 1999)

Description: Domiciled Insurers (formed in Arkansas), however, also operating outside this State, are permitted an offset to premium taxes for payment in other States of retaliatory administrative and regulatory fees. This tax credit relates to retaliatory “administrative and regulatory fees” imposed by other States.

Limitation of Credit: The tax credit may not exceed ninety percent (90%) of the insurer's annual premium tax due the State of Arkansas.

Lines Permitted: All Lines of Arkansas Domiciled Insurers.

Delta Geotourism Incentive Credit

Authority: Arkansas Act 518 of 2007, “An Act To Create An Income Tax Credit For Geotourism In The Lower Mississippi” (hereafter, the Delta Geotourism Act”). (Enacted 2007) Amended by Acts 349 and 1192 of 2009, and 738 of 2011.

Description: An Insurer is entitle to a premium tax credit for a minimum investment of twenty-five thousand dollars (\$25,000) in a geotourism-supporting business located in the Lower Mississippi River Delta, as defined in the Delta Geotourism Act. The tax is equal to twenty-five percent (25%) of the amount of an investment for the year that the investment is made provided that the geotourism-supporting business is currently operating as a business. The maximum amount of the investment in determining the premium or income tax credit is capped at one hundred thousand dollars (\$100,000.00).

Limitation of Credit: See above. The tax credit may be carried forward five (5) years after the year in which the income tax credit was first earned or until exhausted, whichever event occurs first.

Lines Permitted: All Lines.

Coal Mining Income Tax Credit Act

Authority: Ark. Code Ann. § 26-51-511. (Enacted 2003)

Description: Hospital Medical Service Corporations and Captive Insurers are entitled to purchase a transferable credit against premium taxes for investments made in coal mining enterprises complying with the Coal Mining Income Tax Credit Act.

Limitation of Credit: An income tax credit of \$2.00 per ton of coal mined, produced, or extracted on each ton of coal mined in Arkansas in a tax year. An additional credit of \$3.00 per ton will be allowed for each ton of coal mined in Arkansas in excess of 50,000 tons in a tax year. The credit can only be earned if the coal is sold to an electric generation plant for less than \$40.00 per ton excluding freight charges. The credit expires five (5) tax years following the tax year in which the credit was earned.

Lines Permitted: Hospital Medical Service Corporations and Captive Insurers.

The Arkansas Property and Casualty Insurance Guaranty Act Credit

Authority: Ark. Code Ann. § 23-90-119. (Enacted 1977)

Description: Property and Casualty Insurers are permitted an offset to premium taxes for assessments paid by the insurer under Arkansas Property and Casualty Insurance Guaranty Association Act requirements, as set out in Ark. Code Ann. §§ 23-90-101 et seq. Under the Property and Casualty Guaranty Association Act, insurers are required to pay assessments to cover claims of insolvent Property and Casualty Insurers.

Limitation of Credit: The offset for an insurer may not exceed twenty percent (20%) per year for five (5) successive years following the date of the assessment.

Lines Permitted: Property and Casualty.

Affordable Neighborhood Housing Tax Credit

Authority: Ark. Code Ann. § 15-5-1304. (Enacted 1997)

Description: Business firms, including insurers, which provide affordable housing assistance activities pursuant to the requirements of the Affordable Neighborhood Housing Tax Credit Act of 1997, are entitled to a tax credit.

Limitation of Credit: The amount of the tax credit shall not exceed thirty percent (30%) of the total amount invested in affordable housing assistance activities by a business firm. Any tax credit not used in the period for which the credit was approved may be carried forward to any of the five (5) subsequent taxable years until the full credit has been allowed. The total amount of tax credits granted for programs approved under § 15-5-1303 shall not exceed seven hundred fifty thousand dollars (\$750,000) in any taxable year.

Lines Permitted: All Lines.

**INSURER PREMIUM TAX CREDITS TO THE 2.5% ARKANSAS INSURANCE PREMIUM TAX
(Calendar Year 2017)**

Tax Credit	Authority	Lines	Amount	Percentage
Salary (Home Office) Credit	A.C.A. § 26-57-604	Life, Health, Disability	\$ 60,503,902	75.96%
New Market Jobs Credit	A.C.A. § 15-4-3601	P&C, Life, Disability	\$ 16,408,479	20.60%
Low Income Housing Credit	A.C.A. § 26-51-1702	All Lines	\$ 1,407,754	1.77%
Historic Rehab Income Tax Credit	A.C.A. §§ 26-57-604(c) and 26-51-2201 et seq.	All Lines	\$ 367,929	0.46%
L&H Guaranty Fund Assessment Credit	A.C.A. § 23-96-115	Life, Health, Disability	\$ 360,237	0.45%
Equity Investment Incentive Tax Credit	A.C.A. § 15-4-1302	All Lines	\$ 308,486	0.39%
Retaliatory Tax Credit	A.C.A. § 23-63-116	All Domestic insurers transacting P&C.	\$ 227,841	0.29%
Regulatory Fees Tax Credit	A.C.A. § 26-57-615	All Lines of Domiciled insurers.	\$ 70,073	0.09%
Delta Geotourism Incentive Credit	Acts 518 of 2007; 349 & 1192 of 2009; 738 of 2011	All Lines	\$ -	--
Coal Mining Enterprise Credit	A.C.A. § 26-51-511	Hospital Medical Service Corporations, Captive Insurers	\$ -	--
P&C Guaranty Fund Assessment Credit	A.C.A. § 23-90-119	P&C	\$ -	--
Affordable Neighborhood Housing Credit	A.C.A. § 15-5-1304	All Lines	\$ -	--

Total: \$ 79,654,701

**INSURER PREMIUM TAX COLLECTIONS
(Fiscal Year 2018)**

Tax Collected	Amount
Insurance Premium Tax	\$ 175,546,849
Fire Protection Revolving Fund	\$ 13,515,406
Arkansas Works Premium Tax	\$ 33,968,406

Subtotal: \$ 223,030,661
 Refunded \$ (10,979,709)
Total: \$ 212,050,952