STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

September 19, 1997

Administrative Letter 1997-10

TO: **All Insurers, Health Services Plans, Health Maintenance Organizations (HMOs) and Other Interested Parties**

RE: **Notification of Change in Method of Computation of Premium License Tax Credits for Guaranty Association Assessments**

Legislation enacted during the 1997 Session of the Virginia General Assembly (House Bill 2327/Chapter 160) amended §§ 38.2-1611.1, 38.2-1709 and 38.2-2806 of the Code of Virginia pertaining to the computation and use of tax credits for assessments paid by an insurer to the Virginia Property and Casualty Insurance Guaranty Association; the Virginia Life, Accident and Sickness Insurance Guaranty Association; and the medical malpractice joint underwriting association established pursuant to Chapter 28 of Title 38.2.

Specifically. §§ 38.2-1611.1 and 38.2-1709 were amended to provide for a 10-year, straight-line amortization of guaranty fund assessment tax credits. This new method of tax credit computation is effective for all certificates of contribution issued on or after January 1. 1998. In addition. insurers may convert any certificates of contribution that have remaining balances (the sum of tax credits available for tax years 1998 and after) to the new I 0-year amortization method. If the insurer chooses to convert, the remaining balance on the certificate(s) will be amortized over a 10-year period in equal amounts beginning, with taxable year 1998. If an insurer does not elect to convert certificates issued prior to January 1. 1998. these certificates will continue to be amortized under their original schedule until taxable year 2010 when any remaining balance must be used as a tax credit.

The amendment to § 38.2-2806 provides that the amount of the premium tax credit for medical malpractice JUA assessments shall be apportioned so that the tax credit in each of the 10 years following payment of the member's assessment is equal to 10% of the assessment paid by the member. No medical malpractice JUA assessments have been made to date. Therefore, no premium tax credits for this type of assessment are presently available to insurers.

The following are illustrative scenarios of the options mentioned above and are presented for clarification purposes only:

<u>Example 1</u>

ABC Insurance Company has a certificate of contribution dated December 31, 1997, from the Virginia Property and Casualty Insurance Guaranty Association in the amount of $100,000. The certificate lists the following amortization schedule for the contribution:

Tax Year	Tax Credit
1998	25,000
1999	25,000
2000	25,000
2001	25,000

Analysis:

Since the certificate of contribution was issued prior to January 1, 1998, the amortization schedule is based on the old method of computation. Thus, ABC has the option to convert this certificate to the 10-year, straight-line method resulting in the following amortization schedule:

Tax Year	Tax Credit	Tax Year	Tax Credit
1998	10.000	2003	10,000
1999	10.000	2004	10,000
2000	10.000	2005	10.000
2001	10.000	2006	10.000
2002	10.000	2007	10.000

Note that ABC would face reduced tax credits and a longer amortization period if it converts this certificate to the new 10 year method. Therefore, ABC may decide not to convert this certificate.

<u>Example 2</u>

ABC Insurance Company has a certificate of contribution dated December 31, 1996, from the Virginia Life, Accident and Sickness Insurance Guaranty Association in the amount of S500.000. The certificate lists the following amortization schedule for the contribution:

Tax Year	Tax Credit	Tax Year	Tax Credit
1997	25,000	2007	25,000
1998	25,000	2008	25,000
1999	25,000	2009	25,000
2000	25,000	2010	25,000
2001	25,000	2011	25,000
2002	25,000	2012	25,000
2003	25,000	2013	25,000
2004	25,000	2014	25,000
2005	25,000	2015	25,000
2006	25,000	2016	25,000

Analysis:

ABC is eligible for a tax credit of $25,000 for taxable year 1997. The remaining balance of the certificate is then $475,000. ABC can elect to convert this certificate to the new amortization method. Conversion would result in tax credits of $47,500 beginning in taxable year 1998 and continuing through taxable year 2007. ABC would probably want to convert this certificate since it could increase its tax credits and shorten the amortization period. However, if ABC does not convert this certificate, it would follow the original amortization schedule until taxable year 2010. at which time the entire remaining balance could be used as a tax credit. The following table illustrates conversion versus non-conversion:

Tax Year	Con-,.7ersion Tax Credit	Non-Conversion Tax Credit
1997	25,000	25,000
1998	47,500	25,000
1999	47,500	25,000
2000	47,500	25,000
2001	47,500	25,000
2002	47,500	25,000
2003	47,500	25,000
2004	47,500	25,000
2005	47,500	25,000
2006	47,500	25,000
2007	47,500	25,000
2008		25,000
2009		25,000
2010		175,000

Attached is a form that insurers must use to notify the Bureau of Insurance of their intent to convert any outstanding certificates of contribution to the 10-year amortization method. Only those certificates that an insurer wants to convert should be submitted on this form. Please note that this form must be received by the Bureau of Insurance no later than March 1, 1998. Insurers that fail to notify the Bureau of Insurance that they wish to convert a certificate of contribution by this deadline will be barred from converting such certificates and must use the original amortization schedule for tax credits.

It is important to note that this legislation does not impact the computation of tax credits for tax year 1997. Tax credits reported on the 1997 premium license tax report (due March 1, 1998) should be computed using the amortization originally scheduled for 1997 and printed on eligible certificates.

Any questions regarding this administrative letter or the attached guaranty fund tax credit amortization option selection form should be directed to:

Chris Brockwell
Supervisor
State Corporation Commission
Bureau of Insurance - Administrative Tax Unit
P.O. Box 1157
Richmond, VA 23218
Telephone: (804) 371-9333)
FAX: (804) 371-9821

Cordially,

Alfred W. Gross
Commissioner of Insurance

AWG/cab

Attachment

VIRGINIA GUARANTY ASSOCIATION ASSESSMENT TAX CREDIT
AMORTIZATION OPTION SELECTION FORM
(FOR CERTIFICATES OF CONTRIBUTION ISSUED PRIOR TO JANUARY 1, 1998)

NAIC# Company Name

Instructions:

Insurers should use this form to report any guaranty association certificates of contribution dated prior to January 1, 1998, if the insurer wishes to amortize the remaining balance of such certificates over 10 years using a straight-line method beginning with tax year 1998.

- Column I - Report the date of the certificate being converted using the following format MM/DD/YY
- Column 2 - Report the total amount of the certificate of contribution. This is generally the amount of the assessment paid by the insurer for which the certificate of contribution is issued.
- Column 3 - Report the remaining balance of the certificate beginning in 1998. This is the sum of the annual amortization amount from 1998 through expiration of the certificate.
- Column 4 - Divide Column 3 by 10 to determine the revised annual amortization amount for tax years 1998 through 2007.

Return this form no later than March 1, 1998 to:

Bureau of Insurance
Administrative Tax Unit
P.O. Box 1157
Richmond, VA 23218

	(2)	(3)	(4)
Certificate Date	Amount of Certificate	Remaining Balance Available for Tax Credits	New Annual Amortization Amount

Date Preparer Preparer's Signature

Preparer's Title Telephone Number