

Insurers to fight Blanchard on premium tax

By Tim Richard
staff writer

Michigan insurance companies are carrying their fight against Gov. James J. Blanchard's proposal to tax premiums to the state Senate.

"Insurance costs are passed directly to the consumer. This is another burden to be borne by the people of Michigan," Thomas E. Hoeg, president of the Michigan Insurance Federation, told the Senate Finance Committee last week.

But state Treasurer Robert Bowman, architect of Blanchard's "Fairness Plan," argued that the premium tax would close a \$53 million "loophole" enjoyed by Michigan-based insurance companies.

THE GOVERNOR'S program includes several business tax increases to balance a \$110 million increase in rebates the treasury gives homeowners who pay high property taxes. The House of Representatives has passed an amended version, which Bowman says is acceptable to the administration.

The tax package is now before the Senate Finance Committee, chaired by Norman Shinkle, R-Lambertville. Along with state Sen. Rudy Nichols, R-Waterford, Shinkle last week heard testimony from Bowman, insurance industry spokesmen and bankers in Rochester Hills.

Insurance would be affected by House Bill 4703, which would make "domestic" (Michigan-based) insurance companies subject to the same 3.5 percent taxes on premiums paid by "foreign" (non-Michigan) companies.

Domestic insurers currently pay only the single business tax. HB 4703 would exempt them from the SBT if the premium tax is passed.

"SOME DOMESTIC companies pay nothing," said Bowman. "That's unfair. Insurance companies should step up and pay their fair share with Aunt Jane and Grandma."

Asked by Shinkle why the state shouldn't lower the tax on foreign insurers instead of raising it on domestic insurers, Bowman replied: "To close a loophole. We're not going to finance the fairness program out of thin air."

Questioned by Nichols, Bowman said the governor's program "is absolutely a tax shift...to certain businesses that have had loopholes in the past. Will some companies leave the state? I doubt it very much. Insurance premiums are the same whether it's a domestic or foreign insurer."

The treasurer added, "Michigan is overly-reliant on the property tax. We're 133 percent above the national average. This administration prefers to see property tax cuts."

HOEG DENIED Bowman's charge that domestic insurers haven't passed on their tax advantage to their customers, saying state officials used "selected companies and weighted averages" to produce their statement. "In every single case, domestics were 15 percent below foreign companies."

The insurance spokesman from Canton Township argued that the ability of Michigan's 25 domestic insurers to write property and casualty policies would be reduced by an increased tax.

Nationally, he said, the insurance industry suffered a \$3.5 billion loss in 1984 — "the worst year in our industry." And because regulators require insurers to maintain a 3-1 premium-reserves ratio, that loss reduces the industry's capacity to write insurance by \$10 billion.

"We are a non-polluting, high-employment industry" that employs 18,000, Hoeg said, adding that Michigan has "one of the most onerous regulatory climates in the country."

BOWMAN SAID a U.S. Supreme Court case struck down Alabama's preferential tax treatment of domestic insurers, and that Michigan should prepare to do the same.

Macomb Prosecutor Carl Marlinga agreed with

Bowman's interpretation, generally supporting Blanchard's program.

Industry spokesmen, however, said the treasurer misinterpreted the ruling.

"The court didn't rule on the legality of differential taxation but on the purpose of the tax — to encourage investment in Alabama," said D. Joseph Olson of Citizens Insurance Co., Howell.

Olson added that the high court sent the case (Metropolitan Life vs. Ward) back to the Alabama courts to decide whether other justifications for differential tax rates might be found.

Sen. Shinkle said he was "not persuaded" by Bowman's interpretation of the Alabama case.

THE LIFE insurance industry argued that a 2

percent tax on its premiums would be passed onto policyholders either indirectly or directly.

"The life insurance product is a long-term contract over many years. The premium is fixed from day one to the end," said Bill Lewis, representing the 16-member Life Association of Michigan. "If you impose a 3 percent premium tax, we have no way of flowing it through our premium cost."

The tax, if passed, would mean dividends to policyholders would be reduced, Lewis said. It also would mean premiums on new policies would have to be increased.

"Domestic life insurance may be one of the few growth industries in the state," said Lewis. He noted that in the 1981-85 time period employment in Michigan rose 56 percent, payrolls rose 100 per-


cent, American Community Life Insurance put up a new building in Livonia and Alexander Hamilton Life doubled its space in Farmington Hills.

RICHARD J. Francis, an attorney representing Macabees Mutual, agreed, saying Michigan companies are becoming "a national force" in the life insurance business.

"But I wonder, from the beating and pounding, if they (the state) want us to stay," said Francis, noting Macabees is putting up a new building next to the Prudential Tower in Southfield.

Francis said Blanchard's proposed premium tax would be passed on to group insurers, governmental agencies and the financially strapped Consumers Power Co.

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