



Carl Vinson  
Institute of Government  
UNIVERSITY OF GEORGIA

# Tax Incentive Evaluation

## Georgia's Special Tax Deduction for Life Insurance Companies

Alexandra Hill  
Dorian Philpot  
Tommie Shepherd

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**Tax Incentive Evaluation: Georgia's Special Tax Deduction for Life Insurance Companies**

*Prepared by:*

The University of Georgia  
Carl Vinson Institute of Government

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*Authors:*

Alexandra Hill  
Dorian Philpot  
Tommie Shepherd

Carl Vinson Institute of Government  
University of Georgia  
201 North Milledge Avenue  
Athens, Georgia 30602

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## Executive Summary

This study is a review of Georgia's special deduction for life insurance companies (O.C.G.A. § 33-8- 8.1), conducted in accordance with the Tax Credit Return on Investment Act of 2021, also known as Senate Bill 6 (SB6). The study estimates forgone premium tax revenue due to the exemption, the reduction in life insurance sales if premiums were taxed, the economic and fiscal impacts with and without the special deduction for life insurers, and the return on investment (ROI) of the deduction.

Forgone state revenue is estimated at \$217.2 million in 2023, increasing to \$306.8 million in 2032 (Table A). Over the 10-year period from 2023 to 2032, total forgone state revenue amounts to \$2.59 billion. The difference in projected taxable premiums with and without the special deduction for life insurers ranges from \$137.6 million in 2023 to \$189.8 million in 2032. Over the 10-year period (2023 to 2032), the research team projects that the existence of the deduction increases taxable premiums by \$1.6 billion.

Since the special deduction has been in place for nearly 60 years, the research team compared the ROI of the special deduction to the following counterfactual scenario: what if Georgia collected premium taxes without the special deduction for life insurance companies? The ROI of Georgia's special tax deduction for life insurance companies ranges from -0.25 to -0.29 from 2023 to 2032 (Table A). For every \$1 in premium tax deductions, \$0.71 to \$0.75 in value-added impact accrues to the state's economy. In the case of the alternate use of forgone revenue, for every \$1 in sales tax on premiums collected and spent by the state, \$1.33 in value-added impact accrues to the state's economy.

In addition to ROI, it is useful to compare the employment effects of the current (with deduction) and alternate use (without deduction) scenarios. For each \$1 million in taxable premiums, life insurers support 3.7 direct jobs, 2.4 indirect jobs, and 2.5 induced jobs (IMPLAN 2021). Under the alternate use scenario, each \$1 million in revenue collected and spent by the state yields 20 direct (state) jobs, two indirect jobs, and five induced jobs. In terms of employment impact, the alternate use scenario creates more jobs per dollar.

**Table A. ROI of Georgia's special tax deduction for life insurance companies and alternate use of forgone revenue, 2023-2032.**

	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b>Forgone Revenue</b>	<b>\$217,203,302</b>	<b>\$223,201,848</b>	<b>\$231,403,415</b>	<b>\$244,580,698</b>	<b>\$250,459,679</b>
<b>Exemption Value-Added</b>	\$159,616,459	\$166,274,499	\$172,929,247	\$179,580,980	\$186,229,969
<b>ROI of Deduction</b>	-0.27	-0.26	-0.25	-0.27	-0.26
<b>Alternate Use Value-Added</b>	\$289,898,917	\$297,905,111	\$308,851,654	\$326,439,233	\$334,285,846
<b>ROI of Alternate Use</b>	0.33	0.33	0.33	0.33	0.33
<b>Net Economic Impact</b>	-\$130,282,458	-\$131,630,612	-\$135,922,407	-\$146,858,253	-\$148,055,877
	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>
<b>Forgone Revenue</b>	<b>\$263,540,657</b>	<b>\$281,573,037</b>	<b>\$286,667,451</b>	<b>\$283,798,737</b>	<b>\$306,776,852</b>
<b>Exemption Value-Added</b>	\$192,876,490	\$199,520,810	\$206,163,201	\$212,761,308	\$219,353,678
<b>ROI of Deduction</b>	-0.27	-0.29	-0.28	-0.25	-0.28
<b>Alternate Use Value-Added</b>	\$351,744,888	\$375,812,511	\$382,611,971	\$378,783,129	\$409,451,773
<b>ROI of Alternate Use</b>	0.33	0.33	0.33	0.33	0.33
<b>Net Economic Impact</b>	-\$158,868,398	-\$176,291,701	-\$176,448,770	-\$166,021,821	-\$190,098,095

Source: Institute of Government Projections based on Insurance Commissioner Data & IMPLAN 2021.

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## Background

This study reviews Georgia’s special deduction for life insurance companies (O.C.G.A. § 33-8-8.1), conducted in accordance with the Tax Credit Return on Investment Act of 2021, also known as Senate Bill 6 (SB6). SB6 evaluations estimate 1) the net change in state revenues and expenses resulting from the deduction (also known as the fiscal impact) and 2) the net change in economic activity (also known as the economic impact) and net public benefit due to the deduction. The research team also calculated the return on investment (ROI) of the deduction and the alternate use scenario. This report is one of three tax incentive evaluations produced under contract with the Georgia Department of Audits and Accounts by the University of Georgia’s Carl Vinson Institute of Government.

## HISTORY & PURPOSE

In Georgia, the insurance premium tax rate has remained unchanged, at 2.25%, since 1955. In 1964, legislators signed Georgia’s special deduction for life insurance companies into law. The assumed purpose of the deduction—though not explicitly stated in the statute—is to reduce the cost of doing business for life insurers and other qualifying companies, since most states do not allow for county and municipal premium taxes.<sup>1</sup>

## HOW IT WORKS

As of 2021, 431 life insurance companies were licensed to do business in Georgia, with 12 companies domiciled in the state.<sup>2</sup> More than 5.2 million individual life insurance policies were in force, averaging \$142,000 in death benefit protection. In Georgia, insurance companies pay premium taxes, a percentage of premiums collected on individuals, property, or risks in the state, in lieu of corporate income taxes. Due to timing differences between revenue (premiums) and expenses (claims), determining an insurer’s net income is complex, making income taxes less practical. Premium taxes are also simpler to administer and audit.

Georgia’s state premium tax is 2.25% of collected premiums for admitted insurers (including life insurance companies).<sup>3</sup> Though the title of the special deduction implies that only life insurance companies qualify, health maintenance organizations (HMOs), multiple employer welfare arrangements (MEWAs), nurse practitioners (NPs), and hospital medical and dental corporations (HMDIs) are also eligible. In Georgia, qualifying companies also pay local

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<sup>1</sup> Georgia Department of Audits and Accounts Report No. 20-17: Requested Information on Premium Taxes and Related Tax Expenditures

<sup>2</sup> American Council of Life Insurers (ACLI) 2023 Fact Sheet

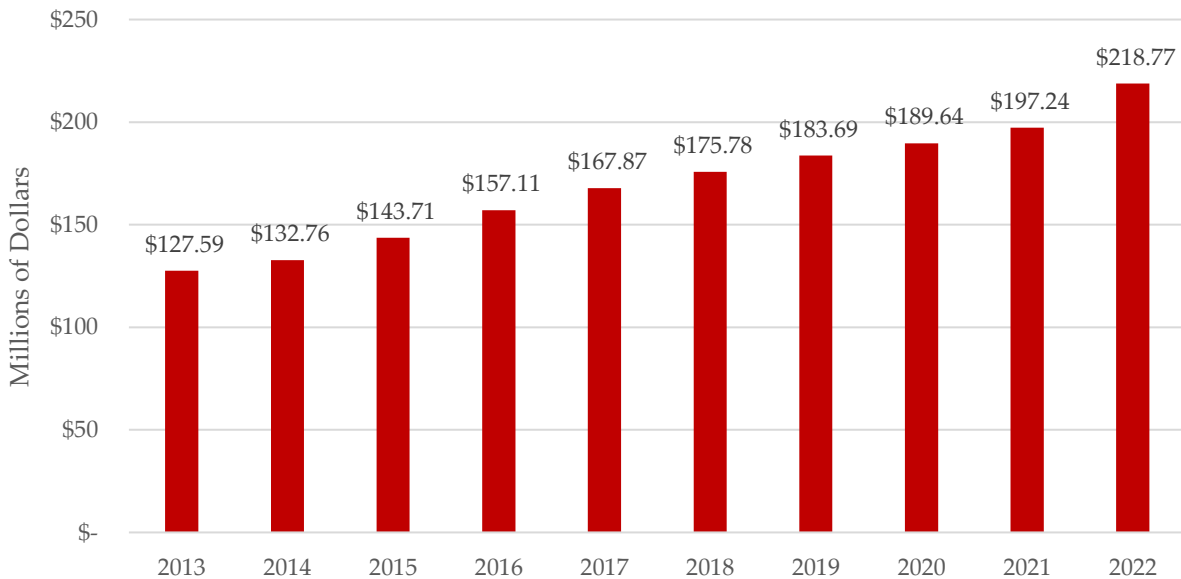
<sup>3</sup> Admitted Insurers are insurance companies licensed through a certificate of authority to operate in the state of Georgia. Admitted insurers are typically members of a state guarantee association which pays claims even if an insurer becomes insolvent.

premium taxes of 1% to all counties. Municipalities must pass an ordinance to impose a local tax on gross direct premiums. While statute allows municipalities to impose a tax up to the maximum rate of 1%, the Office of the Commissioner of Insurance (OCI) indicated that, in practice, only the maximum rate has been imposed.<sup>4</sup> In Georgia, life insurance companies can deduct these local taxes from their state taxes; this special deduction for life insurance companies is the subject of the following evaluation.

## UTILIZATION

County and municipal tax collections—deducted from taxes owed to the state—ranged from \$127.6 million in 2013 to \$218.8 million in 2022 (Figure 1). From 2013 to 2022, county and municipal tax collections in Georgia averaged \$169 million, and total collections increased by 6.2% annually from 2013 to 2022. In 2022, total county and municipal tax collections increased by 10.9%, up from \$197.2 million the previous year. If the special tax deduction did not exist, life insurers and other qualifying companies would have paid the amount displayed in Figure 1 to the state, as well as to counties and municipalities.

**Figure 1. County and municipal premium tax collections in Georgia, 2013-2022.**



Source: OCI 2013-2022 Premium Tax Data.

As discussed previously, life insurers, HMOs, MEWAs, NPs, and HMDIs qualify for the special deduction, though life insurers comprise 97% of all companies that utilize it (Table 1). The number of companies utilizing Georgia’s special tax deduction for life insurers decreased from

<sup>4</sup> Georgia Department of Audits and Accounts Report No. 20-17: Requested Information on Premium Taxes and Related Tax Expenditures

416 in 2013 to 394 in 2022, for a percent change of -5.3%. Of the 394 companies that took the deduction in 2022, 381 were life insurers, making up 96.7% of the total.

**Table 1. Companies utilizing Georgia’s special tax deduction for life insurance companies, 2013-2022.**

Year	HMO	LI	MEWA	NP	HMDI	Total
2013	11	401	1	2	1	416
2014	11	399	1	2	1	414
2015	11	394	1	2	1	409
2016	11	393	1	2	1	408
2017	10	394	0	2	1	407
2018	11	391	0	2	1	405
2019	11	388	0	2	0	401
2020	11	381	0	1	0	393
2021	12	379	0	1	0	392
2022	12	381	0	1	0	394

Source: OCI 2013-2022 Premium Tax Data.

## OTHER STATES

Nearly all states in the U.S. impose an insurance premium tax.<sup>5</sup> State tax rates for life insurers range from 0.50% to 3.50%, averaging 1.92% across the nation. Georgia’s state rate, 2.25% for admitted companies, ranks second-highest among surrounding Southeast states, after Alabama (2.3%, Table 2). Though Georgia’s stated premium tax rate is high compared to surrounding states, institute researchers estimate that Georgia’s effective state premium tax rate is 0.94% after accounting for the local premium deduction.

Six other states in the Southeast authorize local governments to levy premium taxes. However, Georgia’s local premium deduction is unique. Other states, rather than offering deductions for local premium tax payments, simply set their state premium taxes at a lower rate. Table 2 below compares Georgia’s tax treatment of insurance companies to that of surrounding states in the Southeast.

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<sup>5</sup> Georgia Department of Audits and Accounts Report No. 20-17: Requested Information on Premium Taxes and Related Tax Expenditures

**Table 2. Life insurance premium tax rates in southeastern states.**

<b>STATE</b>	<b>STATE LIFE INSURANCE PREMIUM TAX</b>	<b>LOCAL PREMIUM TAX TYPE</b>	<b>LOCAL PREMIUM TAX RATE</b>
<b>ALABAMA</b>	2.30%	Municipal	Up to 4%
<b>FLORIDA</b>	1.75%	Municipal	Varies
<b>GEORGIA</b>	2.25%	Municipal & County	Varies
<b>NORTH CAROLINA</b>	1.90%	NA	NA
<b>SOUTH CAROLINA</b>	0.75%	Municipal	Varies
<b>TENNESSEE</b>	1.75%	NA	NA

Source: Georgia Department of Audits and Accounts Report No. 20-17: Requested Information on Premium Taxes and Related Tax Expenditures



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## Economic Impact

This section examines the economic activity attributed to Georgia's special deduction for life insurance companies. The analysis begins with projected estimates of gross economic activity generated by the special deduction for life insurance companies, from 2023 to 2032. Next, this section calculates the net economic activity generated by the deduction and the return on investment for the exemption. These results are compared with the economic activity that would have been generated under an alternate-use scenario, in which the state collects premium taxes without the local deduction and spends that revenue in a manner similar to all other tax revenues. These calculations allow for a direct comparison between the return on investment for Georgia's special deduction for life insurance companies and an alternate, hypothetical situation in which the deduction does not exist. For more information on the methodology and IMPLAN, see Appendix B.

### GROSS ECONOMIC ACTIVITY

The research team projected gross premiums, with and without the county/municipal tax deduction, for 2023 through 2032, based on the trend in real premiums from 2013-2022 (see Table 3). Gross premiums with the deduction ranged from \$28.0 billion in 2023 to \$38.7 billion in 2032, and totaled \$333.4 billion over the 10-year period.

To determine the amount of economic activity that would occur but for Georgia's special tax deduction for life insurance companies, the research team calculated the effective tax rate on life insurance premiums with (0.94%) and without (1.75%) the county/municipal tax deduction. Thus, removing the deduction would raise the effective state premium tax rate by 0.81%. It was assumed that insurers would pass this increased cost along to consumers in the form of higher premium costs.

Price elasticity of demand is a measure of the percentage change in the quantity of goods demanded in response to a 1% change in price. Institute researchers utilized -0.61 for the price elasticity of demand for life insurance based on a review of academic literature.<sup>6,7,8</sup> Thus, a 1% increase in the price of life insurance would be expected to decrease demand by 0.61%. For more detailed information on elasticity, see Appendix C. Consequently, for a 0.81% increase in the price of premiums (due to the increase in the effective tax rate), the demand for life insurance would be expected to decrease by 0.494%. Gross premiums without the deduction,

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<sup>6</sup> Babel, D. "The Price Elasticity of Demand for Whole Life Insurance." *The Journal of Finance*, March 1985.

<sup>7</sup> Viswanathan, K et al. "Adverse Selection in Term Life Insurance Purchasing due to the BRCA1/2 Genetic Test and Elastic Demand." *Journal of Risk and Insurance*, March 2007.

<sup>8</sup> Pauly, M et al. "Price Elasticity for Term Life Insurance and Adverse Section." *NBER Working Paper 9923*, August 2003.

projected to be 0.494% lower, ranged from \$27.88 billion in 2023 to \$38.46 billion in 2032 (Table 3), totaling \$331.75 billion over the 10-year period.

The research team calculated forgone revenue by multiplying gross premiums by the 2.25% premium tax rate and factoring in abatements<sup>9</sup> to calculate net taxes. For example, in 2023, gross premiums with the county/municipal deduction were projected to be \$28.0 billion. If the deduction was removed, life insurance companies would need to increase premiums by 0.81% (the increase in effective tax rate), reducing demand for life insurance by 0.494% (based on the -0.61 price elasticity of demand). Thus, gross premiums for 2023 without the deduction would be \$27.9 billion. With the county/municipal deduction, the net tax for 2023 would be \$252.8 million. Without the deduction, the net tax would be significantly higher, at \$470.0 million. Thus, Georgia’s special deduction for life insurance companies caused the state to lose \$217.2 million in forgone revenue in 2023.

**Table 3. Projected gross life insurance premiums with and without the deduction and forgone revenue due to the deduction, 2023-2032.**

Year	Gross Premiums w/ Deduction	Gross Premiums w/o Deduction	Tax With Deduction <sup>9</sup>	Tax Without Deduction <sup>9</sup>	Forgone Revenue Due to Deduction
2023	\$28,023,198,740	\$27,884,736,115	\$252,797,635	\$470,000,938	\$217,203,302
2024	\$29,204,649,346	\$29,060,349,173	\$284,101,160	\$507,303,008	\$223,201,848
2025	\$30,386,099,952	\$30,235,962,232	\$274,858,031	\$506,261,445	\$231,403,415
2026	\$31,567,550,558	\$31,411,575,290	\$285,547,272	\$530,127,970	\$244,580,698
2027	\$32,749,001,164	\$32,587,188,349	\$284,378,067	\$534,837,746	\$250,459,679
2028	\$33,930,451,770	\$33,762,801,408	\$278,253,420	\$541,794,078	\$263,540,657
2029	\$35,111,902,376	\$34,938,414,466	\$296,048,665	\$577,621,701	\$281,573,037
2030	\$36,293,352,982	\$36,114,027,525	\$317,250,193	\$603,917,644	\$286,667,451
2031	\$37,474,803,588	\$37,289,640,583	\$354,216,653	\$638,015,390	\$283,798,737
2032	\$38,656,254,194	\$38,465,253,642	\$363,273,247	\$670,050,099	\$306,776,852
<b>Total</b>	<b>\$333,397,264,668</b>	<b>\$331,749,948,783</b>	<b>\$2,990,724,344</b>	<b>\$5,579,930,019</b>	<b>\$2,589,205,675</b>

Source: Institute of Government Projections based on OCI Data.

<sup>9</sup> Abatements include the investment abatement, which states that, if an insurer invests a quarter of its assets in certain qualified Georgia assets, then the State premium tax obligation is reduced from 2.25% to 1.25%. If the amount of investment by a company equals 75% or more of its total assets, then the premium tax is abated one half of one percent.

A second abatement allows for certain Georgia-domiciled insurance companies writing coverage on fire, windstorm, extended coverage, and lightning damage in Georgia to deduct any retaliatory tax paid to another state.

A third abatement allows deductions for license fees paid to local governments by life insurance companies, A&S companies, and health maintenance organizations (HMOs), which vary from municipality to municipality and range from \$15 to \$150.

The fourth deduction allows HMOs, life, and A&S companies to deduct payments made to the Georgia Life, Accident and Sickness Guarantee Fund.

A final abatement allows life, A&S, and HMO companies to deduct the 1% county and municipal taxes. This abatement is not available to the property-liability industry.

The research team estimated the economic impact of life insurance premiums; the equivalent of their contribution to state GDP, with and without the special deduction, from 2023 to 2032, using IMPLAN (see Table 4).<sup>11</sup> Under the current scenario, in which the special deduction exists, the value-added economic impact of taxable premiums was estimated to grow from \$32.3 billion in 2023 to \$44.39 billion in 2032. Under the counterfactual scenario, in which the special deduction does not exist, the value-added economic impact of taxable premiums was estimated to grow from \$32.14 billion in 2023 to \$44.18 billion in 2032. The difference in value-added impact with and without the special deduction ranged from \$159.62 million in 2023 to \$219.35 million in 2032.

**Table 4. Value-added economic impact of life insurance premiums with and without the deduction, 2023-2032.**

	2023	2024	2025	2026	2027
<b>W/ DED.</b>	\$32,304,484,654	\$33,651,993,179	\$34,998,835,595	\$36,345,067,623	\$37,690,744,653
<b>W/O DED.</b>	\$32,144,868,195	\$33,485,718,681	\$34,825,906,349	\$36,165,486,644	\$37,504,514,684
<b>DIFFERENCE</b>	\$159,616,459	\$166,274,499	\$172,929,247	\$179,580,980	\$186,229,969
	2028	2029	2030	2031	2032
<b>W/ DED.</b>	\$39,035,921,771	\$40,380,653,764	\$41,724,995,151	\$43,060,374,078	\$44,394,591,674
<b>W/O DED.</b>	\$38,843,045,281	\$40,181,132,954	\$41,518,831,950	\$42,847,612,770	\$44,175,237,997
<b>DIFFERENCE</b>	\$192,876,490	\$199,520,810	\$206,163,201	\$212,761,308	\$219,353,678

Source: Institute of Government Projections based on OCI Data & IMPLAN 2021.

In IMPLAN, direct impacts are the result of spending by the primary industry being modeled. In this case, taxable premiums were modeled as the direct output of IMPLAN code 443, direct life insurance carriers. Indirect impacts represent “upstream” spending in industries that supply life insurers with goods and services such as computer equipment and advertising services. Induced impacts are the result of personal spending by employees of “upstream” industries. In the direct life insurance industry, IMPLAN estimates that each \$1 million in direct output creates 3.7 direct jobs, 2.4 indirect jobs, and 2.5 induced jobs.

Table 5 displays the four economic indicators—employment, labor income, value-added, and total output—modeled by IMPLAN. The research team calculated that, in 2023, an additional \$137.6 million in taxable premiums would be sold due to the special deduction for life insurance companies, based on price elasticity of demand. For \$137.6 million in direct output, a direct employment impact of 504 jobs would be created. An additional 330 indirect and 344 induced jobs would be created, for a total employment impact of 1,177 jobs. IMPLAN calculated direct labor income at \$103.23 million, for an average salary of \$87,628 of employees in the insurance industry.

<sup>11</sup> IMPLAN® model, 2021 Data, using inputs provided by the user and IMPLAN Group LLC, IMPLAN System (data and software), 16905 Northcross Dr., Suite 120, Huntersville, NC 28078, www.IMPLAN.com

**Table 5. Economic impact of the deduction, 2023.**

<b>IMPACT</b>	<b>EMPLOYMENT</b>	<b>LABOR INCOME</b>	<b>VALUE ADDED</b>	<b>OUTPUT</b>
<b>DIRECT</b>	504	\$44,164,346	\$78,194,379	\$137,592,460
<b>INDIRECT</b>	330	\$25,169,522	\$45,709,251	\$88,405,558
<b>INDUCED</b>	344	\$19,221,302	\$35,712,829	\$60,778,657
<b>TOTAL</b>	1,177	\$88,555,170	\$159,616,459	\$286,776,675

Source: Institute of Government Projections based on OCI Data & IMPLAN 2021.

## **ALTERNATE USE OF FORGONE REVENUE**

As part of this tax incentive evaluation, the research team calculated how much economic activity would be generated if the special deduction did not exist and premium taxes were collected and spent by the state of Georgia. To compare the ROI of the counterfactual scenario to that of the current scenario, the research team modeled the economic impact of the alternate use of forgone revenue, which assumes that the state collects the full amount of premium taxes from life insurance companies and spends that revenue on goods and services that it typically provides to taxpayers. Forgone revenue is modeled in IMPLAN as the direct output of state spending.

Table 6 displays the economic impact of the state collecting and spending \$217.2 million in taxes on life insurance premiums in 2023. According to IMPLAN estimates, \$217.2 million in premium taxes would support 4,343 state jobs, 405 indirect jobs, and 1,088 induced jobs, for a total of 5,836 jobs. For each additional \$1 million in state spending, 20 state jobs are created. Each additional \$1 million in state spending also supports two indirect jobs and five induced jobs. Based on IMPLAN estimates, \$217.2 million in state spending would add \$289.9 million to Georgia's GDP.

**Table 6. Economic impact of the alternate use of forgone revenue, 2023.**

<b>IMPACT</b>	<b>EMPLOYMENT</b>	<b>LABOR INCOME</b>	<b>VALUE ADDED</b>	<b>OUTPUT</b>
<b>DIRECT</b>	4,343	\$165,807,866	\$154,785,190	\$217,203,300
<b>INDIRECT</b>	405	\$20,898,689	\$35,569,589	\$68,777,439
<b>INDUCED</b>	1,088	\$52,364,284	\$99,544,139	\$170,427,244
<b>TOTAL</b>	5,836	\$239,070,840	\$289,898,917	\$456,407,983

Source: Institute of Government Projections based on OCI Data & IMPLAN 2021.

Under the counterfactual scenario, the full amount of premium taxes would be collected by the state, county, and municipalities. After all other abatements, forgone state revenue, estimated at \$217.2 million in 2023, increases to \$306.8 million in 2032 (Table 7), totaling \$2.59 billion over the 10-year period. Table 7 also presents the value-added economic impact (GDP) of the state collecting and spending premium taxes from life insurance companies, from 2023 to 2032. The

value-added impact of the alternate use of forgone revenue grows from \$289.9 million in 2023 to \$409.5 million in 2032, totaling \$3.56 billion over this 10-year period.

**Table 7. Forgone state revenue due to the deduction and value-added economic impact of alternate-use scenario, 2023-2032.**

YEAR	FORGONE STATE REVENUE	VALUE ADDED ECONOMIC IMPACT
2023	\$217,203,302	\$289,898,917
2024	\$223,201,848	\$297,905,111
2025	\$231,403,415	\$308,851,654
2026	\$244,580,698	\$326,439,233
2027	\$250,459,679	\$334,285,846
2028	\$263,540,657	\$351,744,888
2029	\$281,573,037	\$375,812,511
2030	\$286,667,451	\$382,611,971
2031	\$283,798,737	\$378,783,129
2032	\$306,776,852	\$409,451,773
<b>TOTAL</b>	<b>\$2,589,205,675</b>	<b>\$3,455,785,032</b>

Source: Institute of Government Projections based on OCI Data & IMPLAN 2021.

## NET ECONOMIC ACTIVITY

The research team calculated the ROI (the gain from the investment—i.e., the value added by the premium tax deduction—minus the cost of the investment—i.e., forgone state revenue—divided by the cost of the investment) of Georgia’s special tax deduction for life insurance companies and the alternate-use scenario.

The projected ROI of Georgia’s special tax deduction for life insurance companies ranges from -0.25 to -0.29 from 2023 to 2032 (Table 8). For every \$1 in premium tax deductions, \$0.71 to \$0.75 in value-added impact accrues to the state’s economy. Using 2023 as an example year, for \$217.2 million in in forgone state revenue, Georgia’s special tax deduction for life insurance companies generates \$159.6 million in value-added impact.

In the case of the alternate use of forgone revenue, for \$217.2 million in state spending, \$289.9 million in value-added impact would accrue to the state of Georgia (Table 8). Thus, the ROI of the alternate-use scenario is 0.33. For every \$1 in premium taxes collected and spent by the state, \$1.33 in value-added impact accrues to the state’s economy.

**Table 8. ROI of the deduction and alternate use of forgone state revenue, 2023-2032.**

	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b>Forgone Revenue</b>	<b>\$217,203,302</b>	<b>\$223,201,848</b>	<b>\$231,403,415</b>	<b>\$244,580,698</b>	<b>\$250,459,679</b>
<b>Exemption Value-Added</b>	\$159,616,459	\$166,274,499	\$172,929,247	\$179,580,980	\$186,229,969
<b>ROI of Deduction</b>	-0.27	-0.26	-0.25	-0.27	-0.26
<b>Alternate Use Value-Added</b>	\$289,898,917	\$297,905,111	\$308,851,654	\$326,439,233	\$334,285,846
<b>ROI of Alternate Use</b>	0.33	0.33	0.33	0.33	0.33
<b>Net Economic Impact</b>	-\$130,282,458	-\$131,630,612	-\$135,922,407	-\$146,858,253	-\$148,055,877
	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>
<b>Forgone Revenue</b>	<b>\$263,540,657</b>	<b>\$281,573,037</b>	<b>\$286,667,451</b>	<b>\$283,798,737</b>	<b>\$306,776,852</b>
<b>Exemption Value-Added</b>	\$192,876,490	\$199,520,810	\$206,163,201	\$212,761,308	\$219,353,678
<b>ROI of Deduction</b>	-0.27	-0.29	-0.28	-0.25	-0.28
<b>Alternate Use Value-Added</b>	\$351,744,888	\$375,812,511	\$382,611,971	\$378,783,129	\$409,451,773
<b>ROI of Alternate Use</b>	0.33	0.33	0.33	0.33	0.33
<b>Net Economic Impact</b>	-\$158,868,398	-\$176,291,701	-\$176,448,770	-\$166,021,821	-\$190,098,095

Source: Institute of Government Projections based on OCI Data & IMPLAN 2021.

## Fiscal Impact

SB6 tax incentive evaluations are required to calculate the fiscal impact of credits and exemptions as well as the economic impact. The fiscal impact of a tax exemption sums forgone state revenue, increased state tax collections, and any cost to the state of administering the exemption. Forgone revenue was calculated as the difference in net tax (2.25% of taxable premiums minus abatements) with and without the deduction. The research team modeled additional state revenue generated by the special deduction for life insurance companies using IMPLAN, determining that, in this case, since the OCI calculates, collects, and disburses premium taxes regardless of the existence of abatements and deductions, the state bears no additional cost to administer the deduction.

Table 9 presents the difference in state tax collections between the current (with deduction) and counterfactual (without deduction) scenarios. Increased state tax collections due to the exemption range from \$8.79 million in 2023 to \$12.31 million in 2032, for a total increase of \$105.43 million over the 10-year period. The fiscal impact of Georgia’s special deduction for life insurers ranges from -\$208.41 million in 2023 to -\$294.47 million in 2033. Fiscal impact of the exemption over the 10-year period from 2024 to 2033 totaled to -\$2.48 billion in state revenue.

**Table 9. Fiscal impact of the deduction and alternate use of forgone state revenue, 2023-2032.**

YEAR	FORGONE STATE REVENUE	DEDUCTION ADD’L STATE TAX COLLECTIONS <sup>12</sup>	DEDUCTION FISCAL IMPACT	ALTERNATE USE ADD’L STATE TAX COLLECTIONS <sup>13</sup>	ALTERNATE USE FISCAL IMPACT
2023	\$(217,203,302)	\$8,792,510	\$(208,410,792)	\$12,677,369	\$229,880,671
2024	\$(223,201,848)	\$9,178,209	\$(214,023,638)	\$13,027,482	\$236,229,330
2025	\$(231,403,415)	\$9,565,148	\$(221,838,266)	\$13,506,178	\$244,909,593
2026	\$(244,580,698)	\$9,953,330	\$(234,627,368)	\$14,275,288	\$258,855,986
2027	\$(250,459,679)	\$10,342,758	\$(240,116,921)	\$14,618,423	\$265,078,102
2028	\$(263,540,657)	\$10,733,435	\$(252,807,223)	\$15,381,912	\$278,922,569
2029	\$(281,573,037)	\$11,125,363	\$(270,447,673)	\$16,434,397	\$298,007,434
2030	\$(286,667,451)	\$11,518,548	\$(275,148,903)	\$16,731,739	\$303,399,190
2031	\$(283,798,737)	\$11,912,990	\$(271,885,747)	\$16,564,303	\$300,363,040
2032	\$(306,776,852)	\$12,308,693	\$(294,468,159)	\$17,905,452	\$324,682,304
<b>TOTAL</b>	<b>\$(2,589,205,675)</b>	<b>\$105,430,984</b>	<b>\$(2,483,774,691)</b>	<b>\$151,122,543</b>	<b>\$2,740,328,218</b>

Source: Institute of Government Projections based on OCI Data & IMPLAN 2021.

<sup>12</sup> Incremental state tax collections with exemption

<sup>13</sup> Incremental state tax collections without exemption - Does not include additional premium tax collected.

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## Public Benefit

Lower premium taxes reduce the cost of doing business for insurers which may be passed on to consumers in a competitive business environment. More affordable life insurance reduces the financial burden on consumers, making them less likely to forgo life insurance or self-insure.<sup>14</sup> If Georgia's special tax deduction for life insurers was repealed, insurers would need to pass on the increased cost, equal to 0.0081% of taxable premiums, or about \$250 million annually. Cost increases in life insurance premiums would be unlikely to affect customers equitably due to the structure of policy contracts. New policies would likely bear the brunt of cost increases, as older policies are largely "locked in" in terms of premiums until policies are renewed under revised terms. The extent to which Georgia's insurance premium tax structure affects the cost of doing business for insurers would require further analysis and is beyond the scope of this report.

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<sup>14</sup> Lockwood, L. M. (2018). "Incidental Bequests and the Choice to Self-Insure Late-Life Risks." *American Economic Review*, 108(9), 2513–2550. <https://doi.org/10.1257/aer.20141651>



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## Appendix

### A. INFORMATION FROM AMERICAN COUNCIL OF LIFE INSURERS (ACLI)

Institute researchers requested more information from the American Council of Life Insurers (ACLI) about how Georgia's special deduction affects life insurance companies. The following section consists reflects the opinions of ACLI and not The Institute of Government.

According to the ACLI, if the municipal tax credit were repealed, Georgia-domiciled life insurers would also pay an additional \$2 million in retaliatory taxes to other states.<sup>15</sup> This \$2 million represents "free" tax revenue to these other states and is roughly twice the estimated premium tax revenue Georgia domestic life insurers currently pay to Georgia.

Often the effective tax rate paid by a specific industry differs significantly from the statutory rate. Though the statutory life insurance premium tax is 2.25% in Georgia, the ACLI estimates an effective combined state and local premium tax rate for life insurers in the state of 1.37%. Other tax credits explain most of this difference between the statutory rate (2.25%) and effective rate (1.37%). ACLI estimates that approximately 50% of credits taken against the premium tax can be attributed to the Clean Energy Credit, the Low-Income Housing Credit, and the Rural Fund Credit. For 2021, the effective state premium tax rate was 0.79%. Loss of the municipal tax credit would result in an 1.95% effective rate in Georgia, among the top half of heavily-taxed states and more than 13% above the national average premium rate.

As discussed previously, insurance companies are taxed on premiums instead of income due to the complexity of revenue and expenses in the industry. The ACLI estimated the equivalent income tax rate of both the 2.25% statutory premium tax rate and the 1.37% effective premium tax rate. For the 2.25% statutory life insurance premium tax rate, the equivalent income tax rate would be 13.74%, or 2.38 times the statutory corporate income tax rate. For the 1.37% effective premium tax rate, the equivalent income tax rate would be 7.89%, or 1.37 times the statutory corporate income tax rate. The loss of the municipal tax credit would result in an equivalent income tax rate of 19.6%, or 3.41 times the statutory corporate income tax rate.

In authoring this report, the research team focused most on the "but for" question. In other words, if the special deduction for life insurers in Georgia did not exist, what economic and fiscal implications might affect the state's life insurance industry? To aid institute researchers in answering the "but for" question, the ACLI was asked to estimate the impact of a hypothetical

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<sup>15</sup> Institute of Government communications with American Council of Life Insurers (ACLI) The answers provided herein are derived from various public data sources and ACLI estimates based on NAIC Annual Statement data, public data sources and ACLI survey data.

counterfactual situation in which the special deduction for life insurers did not exist. The ACLI posited that, according to economic theory, some—but not all—of the costs associated with the loss of the municipal tax credit would be passed along to customers.

ACLI explained that contract repeal could impact in-force contracts in two ways: premium increases and reductions in policyholder dividends/paid-up additions.

- **Premium Increases:** Whether premiums could be increased to reflect the loss of the contract would depend on its specific terms, unknown by ACLI.
- **Policyholder Dividends/Paid-up Additions:** The growth in cash value for all permanent life contracts depends on the after-tax income of the company issuing the policy. Certain policies, whole life and universal life, have minimum required crediting rates. The policy owner, however, may, and frequently does, receive a return in excess of the required rate, via a policyholder dividend/paid-up addition. The loss of the special deduction for life insurers would adversely impact their after-tax income and could flow through to existing policy owners.
- **Variable Contracts:** Variable contracts have no guaranteed minimum. The amounts credited to those policies depend on both the specific subaccounts and the performance of the insurers' general account investments. Loss of the special deduction would impact the amount of funds available to credit these policies.
- **Contract Exchanges:** Focusing on the “permanence” of these contracts overlooks an important factor – contract exchanges. If one assumes none of the impact can be passed onto the policyholder, that assertion would hold only for the current insurance policy. If the policyholder exchanges the current insurance policy for one with different features, the new contract would reflect the impact of the loss of the credit. For example, a wage earner with two small children could currently own a permanent \$250,000 life insurance policy, but when those children graduate, some policy owners exchange their annual pay insurance policy for one with a smaller face-value. If the municipal tax credit is repealed, the new contract will reflect its impact.

#### Individual Life Insurance:

- For individual life products, approximately 87% of individual life premiums are from traditional whole life and 13% are from term policies. While traditional whole life policies can last for as long as 120 years, term contracts have much shorter durations, typically between one and 20 years. While some life insurers offer 30-year term policies, the most common duration is 10 years.
- For term-life policies, the “fixed” nature of premiums is ephemeral. Policy owners commonly purchase a short-term policy, and, when that policy expires, purchase a new life insurance contract. The impact on premium pricing from a repeal of any credit will be observable in only a few years.

### Group Life Insurance:

- Approximately 31% of group life insurance is permanent.
- Disability Income, Long-Term Care and Supplemental Benefit Insurance: 100% of the premiums from these contracts are set for the duration of the contract. In the case of long-term care insurance, the duration is permanent and lasts until the contract ceases. In the case of disability income and most supplemental benefit insurance, a common contract duration is in the 3-5-year range. Consequently, while these policyholders will not see an immediate impact from a premium tax credit repeal, any change to pricing would be included when they seek the next contract.
- Approximately 60% of group life insurance premiums are from term insurance policies, typically issued for one year, but sometimes for as long as 3-5 five years. Any premium increase caused by loss of the credit could quickly impact these policies.

## B. METHODOLOGY

Economic impact modeling is a technique used to estimate how a new firm, facility, or policy change will affect a region's economy. Such estimates are often produced using an input-output model that first calculates a baseline forecast of economic activity for the geographic region and then estimates how shocks (inputs) to the economy alter economic activity (output). In this report, Institute of Government researchers estimated the economic impact of Georgia's special tax deduction for life insurance companies.

Institute researchers utilize IMPLAN, a widely used county-level economic model of the United States, to estimate the economic impact of the special deduction.<sup>16</sup> This model produces a baseline economic forecast using data from the U.S. Census Bureau, the North American Industry Classification System (NAICS), the Bureau of Economic Analysis, and the Bureau of Labor Statistics, as well as other data from the U.S. Department of Commerce.

In IMPLAN, adding an input, or change to the economy (e.g., new jobs, labor income, increased demand for goods and services, or a policy change such as a tax deduction) allows for estimations of the overall increase or decrease in economic activity resulting from the change. The economic measures reported by the model include the number of jobs supported, the labor income associated with those jobs, the value added (or lost) to the economy in the particular geographic study region, and the total economic output added (or lost) as a result of the change.

IMPLAN provides estimates of the direct, indirect, and induced effects of an economic event—in this case, the taxation of life insurance premiums. Direct, indirect, and induced effects are estimated for employment, labor income, value-added impact, and total output impact.

Premium taxes are functionally a sales tax on total premiums collected in the state. Though premium taxes are not paid directly by the consumer, life insurance companies increase the cost of premiums to recoup their cost of doing business, which includes taxes. By this logic, an increase in the effective tax rate paid by life insurance companies would result in an increase in premiums for life insurance policies. In this case, the 0.81% increase in the effective tax rate would cause life insurance companies to increase premiums by 0.81%.

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<sup>16</sup> IMPLAN® model, 2021 Data, using inputs provided by the user and IMPLAN Group LLC, IMPLAN System (data and software), 16905 Northcross Dr., Suite 120, Huntersville, NC 28078 [www.IMPLAN.com](http://www.IMPLAN.com)

### C. PRICE ELASTICITY OF DEMAND

Most tax exemption studies pivot on the “but for” question, which asks: “but for” the tax exemption, how would taxpayers behave, and how might resultant tax collections differ? In the case of the insurance premium deduction, researchers examine a counterfactual example, asking how insurance policy sales and related taxes might be different if the deduction were eliminated.

Two economic assumptions are necessary in order to evaluate a counterfactual scenario. First, in the absence of a state premium tax exemption, insurers would ultimately pass on the cost of the tax to consumers who purchase life insurance products from the taxed company. Secondly, in the face of higher premium prices, consumers would purchase less life insurance (i.e., the demand curve for life insurance is downward sloping).

In the field of economics, this amounts to estimating the price elasticity of demand for life insurance coverage. The price elasticity of demand for any good is the percentage change in the quantity demanded given a 1% change in its price. To apply this terminology to the case of life insurance, if the price of insurance coverage were to rise by 1% in the absence of a tax premium deduction, demand could logically be expected to either fall or stay the same, depending on buyer sensitivity to price (i.e., elasticity). If the demand for life insurance coverage were to fall in response to rising prices, the demand for lottery tickets would be termed elastic, and if it were to stay the same, it would be termed inelastic. In short, answering the question of “but for” is synonymous with estimating the price elasticity of demand.

Several difficulties exist in estimating the price elasticity of demand for life insurance products, chiefly the lack of individual purchase data available to researchers and the sheer variety and complexity of life insurance products available. For example, insurance policies may be for a fixed length of time (typically referred to as “term life” policies) or for the lifetime of the policy holder (typically referred to as “whole life” policies). Policies may be classified as “participating” or “non-participating,” depending on whether or not the policy holder benefits, through accumulated cash value, in the financial success of the insuring company. A dizzying array of policy options and riders add to this complexity, making it extremely difficult to compare the actual costs of different policies.

Consequently, few academic researchers have ventured to estimate the price elasticity of demand for life insurance coverage. The few notable attempts include David Babbel (1985),<sup>17</sup>

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<sup>17</sup> Babbel, David. “The Price Elasticity of Demand for Whole Life Insurance.” *The Journal of Finance*, March 1985.

Mark Pauly and colleagues (2003),<sup>18</sup> and Krupa Viswanathan and colleagues (2007).<sup>19</sup> Babel estimated price elasticities between -0.71 and -0.92 for non-participating whole life policies and between -.032 and -.042 for participating whole life policies. Pauly found elasticities for term life policies to range from -0.41 to -0.58. In a study specific to demand for term life policies in the presence of genetic testing, Viswanathan estimated elasticities in a range of -0.45 to -0.68. After carefully reviewing these studies, researchers chose the midpoints of each range for whole life and term life policies and weighted these midpoint estimates based on information from the American Council of Life Insurers, showing that approximately 87% of all premiums go towards whole life policies and 13% towards term life policies. The resulting weighted average<sup>20</sup> price elasticity of demand for life insurance was -.061. This elasticity measure was used to estimate the reduction in life insurance premiums collected in the state, in the event that the full cost of a tax increase resulting from removal of the premium tax deduction was passed on to consumers.

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<sup>18</sup> Pauly, Mark et al. "Price Elasticity for Term Life Insurance and Adverse Selection." *NBER Working Paper* 9923, August 2003.

<sup>19</sup> Viswanathan, K et al. "Adverse Selection in Term Life Insurance Purchasing due to the BRCA1/2 Genetic Test and Elastic Demand." *Journal of Risk and Insurance*, March 2007.

<sup>20</sup> A weighted average was used due to a lack of data detail on the exact split between whole and term life policies sold in Georgia.