Carl Vinson
Institute of Government
UNIVERSITY OF GEORGIA

# Tax Incentive Evaluation

## Georgia's Tax Abatement for Insurance Companies Investing in Certain Georgia-Based Assets

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**Tax Incentive Evaluation: Georgia's Tax Abatement for Insurance Companies Investing in Certain Georgia-Based Assets**

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## Executive Summary

This study is a review of Georgia's tax rate abatement on insurance premium taxes for insurance companies investing in certain Georgia-based assets (O.C.G.A. § 33-8-5). It was conducted in accordance with the Tax Expenditures Transparency Act of 2024, also known as Senate Bill 366. The state of Georgia taxes insurance companies at a rate of 2.25% on annual insurance premiums collected instead of imposing the more typical corporate income tax applied to most other types of businesses. This insurance premium tax rate is reduced for insurance companies that invest a portion of their assets in certain Georgia-based financial instruments or property.

Designated investment categories include state, county, or municipal bonds, real estate or loans secured by real estate, loans on insurance policies of state residents, intangible property located in Georgia, or shares of Georgia corporations. For insurance companies investing at least 25% of their total assets (exclusive of U.S. government obligations) in Georgia-based assets, the premium tax is reduced from 2.25% to 1.25% and for companies investing at least 75% of their assets in Georgia, the premium tax rate is further reduced to 0.5%. The research team compared the ROI of the exemption to the counterfactual scenario: what if the state of Georgia did not offer the premium tax rate abatement to insurance companies?

The projected ROI of Georgia's insurance premium rate abatement for insurance companies is projected to be -0.30 between 2024-2030 (Table A). For every $1 in premium tax abatement, approximately $0.70 in value-added impact accrues to the state's economy. For example, in 2024, for $280.8 million in forgone state revenue, the rate abatement for insurance companies is projected to generate $182.4 million in value-added impact. In the case of the alternate use of forgone revenue, i.e. the counterfactual scenario in which the state collects and spends the tax dollars, for $280.8 million in state spending, $385.5 million in value-added impact would accrue to the state of Georgia. Thus, the ROI of the alternate use scenario is 0.37. For every $1 in premium taxes collected and spent by the state, $1.37 in value-added impact accrues to the state's economy.

Institute researchers were unable to identify a reliable data source that could be used to assess the effectiveness of the abatement in fulfilling its purpose—to incentivize in-state investment. The number of insurance companies utilizing the abatement that were willing to disclose details of their investment portfolios was deemed too small to make an accurate assessment of the abatement's role in influencing their corporate investment strategy. Available secondary data was too incomplete to draw conclusions. The extent to which Georgia's insurance premium tax abatement incentivizes in-state investment would require a level of data collection and further research that is beyond the scope of this report.

**Table A. ROI of Georgia's premium tax rate abatement for insurance companies and alternate use of forgone revenue, 2023-2030.**

| | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|
| **Gross Forgone State Rev.** | $280,817,015 | $300,951,316 | $322,553,134 | $345,731,375 |
| **Net Forgone State Rev.** | $261,604,770 | $280,245,118 | $300,235,159 | $321,674,360 |
| **Exemption Value-Added** | $182,366,026 | $195,887,724 | $210,428,888 | $226,067,856 |
| **ROI of Exemption[1]** | -0.30 | -0.30 | -0.30 | -0.30 |
| **Alt. Use Value-Added** | $385,469,540 | $413,107,323 | $442,759,525 | $474,575,638 |
| **ROI of Alternate Use[2]** | 0.37 | 0.37 | 0.37 | 0.37 |
| | **2028** | **2029** | **2030** | |
| **Gross Forgone State Rev.** | $370,603,183 | $397,294,581 | $425,941,158 | |
| **Net Forgone State Rev.** | $344,669,661 | $369,336,046 | $395,797,165 | |
| **Exemption Value-Added** | $242,889,123 | $260,983,818 | $280,450,257 | |
| **ROI of Exemption[1]** | -0.30 | -0.30 | -0.30 | |
| **Alt. Use Value-Added** | $508,716,463 | $545,354,987 | $584,677,329 | |
| **ROI of Alternate Use[2]** | 0.37 | 0.37 | 0.37 | |

Source: Institute of Government Projections & IMPLAN 2022.

1. ROI of the tax exemption is calculated based on Net Forgone State Revenue (e.g. gross forgone revenue less additional state taxes collected).
2. ROI of the alternate use is calculated based on Gross Forgone State Revenue

## Background

This study is a review of Georgia's tax rate abatement on insurance premium taxes for insurance companies investing in certain Georgia-based assets (O.C.G.A. § 33-8-5) conducted in accordance with the Tax Expenditures Transparency Act of 2024, also known as Senate Bill 366. SB366, passed during the 2024 legislative session, expands on the requirements of its predecessor, SB6. SB6 required the calculation of forgone tax revenue, the economic impact of the tax incentive on the state economy, and the overall return on investment (ROI) of the credit or exemption. SB366 expands this list to include an assessment of the exemption's efficiency, ancillary impacts, the theoretical impact of modifying or terminating the exemption, and recommendations for improving the ROI. 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

The Georgia insurance premium tax was created in 1960 with the intent of incentivizing in-state investment by insurance companies. It is available to all admitted insurers regardless of product type (e.g. life, health, and property/casualty). An admitted insurer is an insurance company that is licensed through a certificate of authority to operate in Georgia. SB366 tax evaluations are required to address potential impacts to the economy if the credit or exemption were repealed. The research team posits that repealing the rate abatement could result in decreased investment in the Georgia assets which it was designed to incentivize. However, Institute researchers were unable to identify a reliable data source that could be used to assess the effectiveness of the abatement in fulfilling its purpose. The number of insurance companies utilizing the abatement willing to disclose details of their investment portfolios was deemed too small to make an accurate assessment of the abatement's role in influencing their corporate investment strategy. Available secondary data was too incomplete to draw conclusions. The extent to which Georgia's insurance premium tax abatement incentivizes in-state investment would require a level of data collection and further research that is beyond the scope of this report.

### HOW IT WORKS

Georgia's state premium tax is 2.25% for all admitted insurers, foreign and domestic. Admitted life insurance companies must also pay a 1% local premium tax, while all other insurance companies, including property and casualty insurers must pay a 2.5% local premium tax. In Georgia, insurance companies can qualify for a state tax abatement if a percentage of their total assets are invested in certain Georgia-based funds or assets. Eligible investment categories include general obligation bonds, revenue bonds, revenue anticipation certificates, real estate, tangible personal property, loans secured by liens on real estate, policy loans on insurance

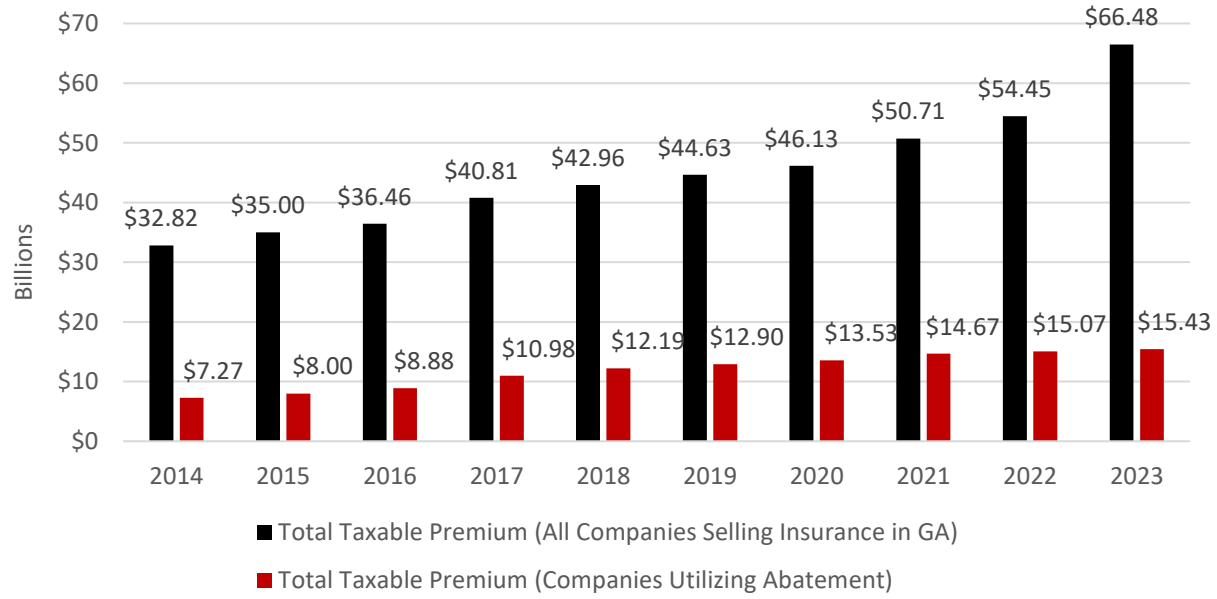
policies issued by the company on the lives of persons resident in this state, intangible property having a taxable situs in the state, or shares in Georgia corporations in which the insurance companies are authorized to invest under the laws of the state.[1]

If a company invests between 25% and 74% of its assets in the aforementioned investment categories, the state premium tax rate is reduced to 1.25% (partial abatement). If a company invests 75% or more of its assets in these investment categories, the gross premium tax rate is reduced to 0.5% (full abatement). In addition, life insurance companies who meet the 75% Georgia investment threshold and receive the full abatement are also exempt from local premium taxes. Insurance companies claiming the rate abatement are required to file an annual premium tax return, due by March 1st of each year, with the state's Insurance and Safety Fire Commissioner's Office, documenting their eligibility to receive the abatement (See appendix A for relevant tax code).

## UTILIZATION

Total insurance premiums sold in Georgia increased from $33.8 billion in 2014 to $66.5 billion in 2023. However, premiums subject to the abatement are only a small fraction of total premiums sold in Georgia. As of 2023, only 23.2% of premiums in Georgia were sold by insurance companies receiving the full or partial abatement. Between 2014 and 2023, abated premiums grew by an annual average of 8.9%, from $7.3 billion in 2014 to $15.4 billion in 2023 (Figure 1).

**Figure 1. Taxable Insurance Premiums 2014-2023.**

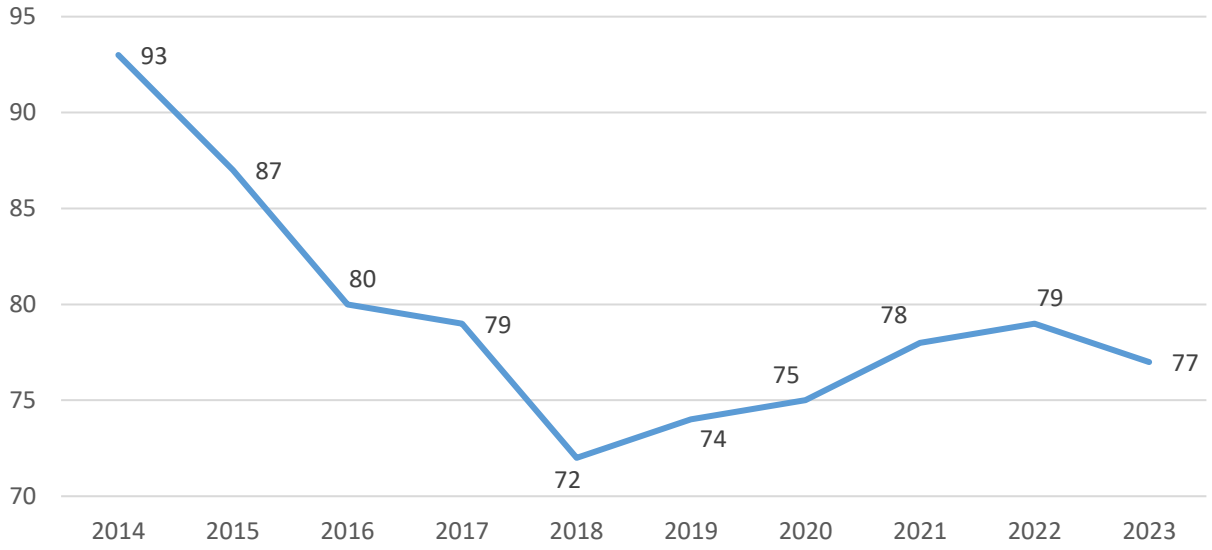



Source: OCI 2014-2023 Premium Tax Data.

[1] https://law.justia.com/codes/georgia/title-33/chapter-8/section-33-8-5/

The number of companies qualifying for the abatement declined from 93 in 2014 to 77 in 2023 for a decrease of 17.2% (Figure 2). There is a possibility that future amended tax returns could result in adjustments to the number of companies in more recent years. The general trend is that fewer insurance companies are investing larger amounts of money into state-backed assets.

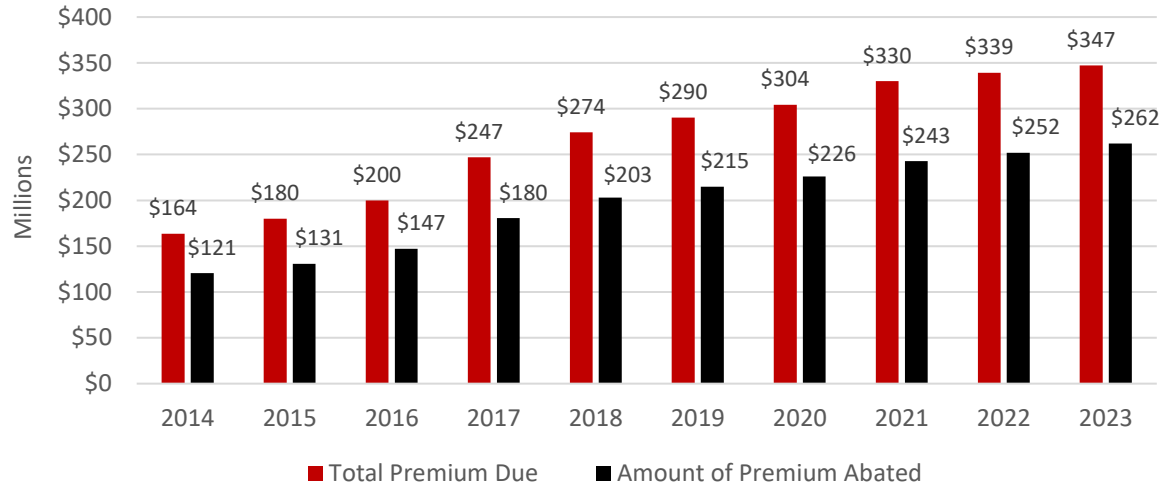
**Figure 2. Number of Companies utilizing Georgia's tax abatement for state insurance companies investing in certain Georgia-based assets**




Source: OCI 2014-2023 Premium Tax Data.

The total amount of premium tax abated grew from $121 million in 2014 to $262 million in 2023 (Figure 3). An average of 73.9% of the total premium tax due to eligible companies was abated each year, reflecting the fact that approximately 93% of eligible companies receive the full abatement while only 7% receive a partial abatement. This percentage split between full and partial abatement remained relatively constant between 2014 and 2023.

**Figure 3. Total Premium Tax Due and Abated, 2014-2023.**




Source: OCI 2014-2023 Premium Tax Data.

Under existing tax code, all types of insurance companies are eligible for the abatement if they meet the necessary requirements, unlike other abatements or rate reductions that may only apply to insurers that carry specific product lines such as life insurance. According to data supplied by the state insurance commissioner, the abatement is utilized by property and casualty companies, HMO or life insurers, and association captives. Association captives are insurers that are established and wholly owned by one or more parent companies for the purpose of insuring the parent companies' risks. Table 1 shows a breakdown of the number of companies, by type, utilizing the abatement between 2014 and 2023. Between 2014 and 2023, about three fourths of insurers utilizing the abatement were property/casualty companies and the remaining one fourth were HMO or life insurance companies.

**Table 1. Companies utilizing Georgia's premium tax abatement, 2014-2023.**

| Year | HMO/Life | Property/ Casualty | Association Captive | Total |
|---|---|---|---|---|
| **2014** | 23 | 63 | 7 | 93 |
| **2015** | 20 | 60 | 7 | 87 |
| **2016** | 20 | 60 | 0 | 80 |
| **2017** | 20 | 59 | 0 | 79 |
| **2018** | 19 | 53 | 0 | 72 |
| **2019** | 19 | 55 | 0 | 74 |
| **2020** | 20 | 55 | 0 | 75 |
| **2021** | 18 | 60 | 0 | 78 |
| **2022** | 19 | 60 | 0 | 79 |
| **2023** | 21 | 56 | 0 | 77 |

Source: OCI 2014-2023 Premium Tax Data.

## OTHER STATES

Insurance premium tax abatements are relatively uncommon in the United States. 43 states do not offer any premium tax abatements. Of the seven states that do offer premium tax abatements or credits for state investment, five are located in the Southeast (Alabama, Colorado, Georgia, Mississippi, South Carolina, Tennessee, and West Virginia). Further research comparing tax abatements across states might help inform decision making regarding Georgia's insurance premium tax abatement. Each state treats taxation of insurance premiums differently, consequently, the complexity of calculating the effective tax rate on insurance premiums among different states was outside the scope of this report.

In Mississippi, companies are offered a rate reduction based on the percentage of qualifying in-state investment. The rate is reduced by 1-50% on a sliding scale based on the percentage of total assets in qualifying Mississippi investments. The maximum 50% rate reduction requires 25% of assets in Mississippi Investments.

In Tennessee, insurance companies excluding life and health are eligible for a credit against premium taxes for investments in state securities if the Tennessee securities are at least 25% of their total admitted assets.[2] If a company invests between 70 and 80% of its assets in state securities, the company receives a 25% reduction on their gross premium tax. If a company invests between 80 and 90% of assets in state securities, the company receives a 50% reduction on their gross premium tax. If a company invests more than 90% of assets in state securities, the company receives a 75% reduction on their gross premium tax.

In Alabama, there is the Real Property Investment Credit where insurance companies are offered 0.1% rate reduction for every $1 million in value of real property investment in the state. The total deduction cannot exceed 1% of the company's Alabama taxable premium.

In West Virginia, insurance companies can reduce their gross premium tax to zero if at least 25% of their admitted assets are invested in West Virginia and they meet some additional criteria. The additional criteria require companies to employ less than 20 full time employees, have gross direct premiums under $10 million, and generate at least 50% of their gross direct premiums in underserved areas of the state.

South Carolina offers Venture Capital Investment credits to insurance companies who fund the "emerging, expanding, relocating, and restructuring" of enterprises within the state.[3] When a loan is made by an insurance company to an investor group designated by the South Carolina Venture Capital Authority, the Authority issues a tax credit certificate to the lender. Insurance

[2] https://law.justia.com/codes/tennessee/title-56/chapter-4/part-2/section-56-4-210/

[3] https://dor.sc.gov/resources-site/lawandpolicy/Documents/SCTIED-2023/SCTIED-2023-Chapter%202-PartH.pdf

company lenders may use tax credits to offset insurance premium taxes. The tax credit amount is linked to the lender's principal loan amount plus the required interest.

# Economic Impact

This section presents the economic activity attributed to Georgia's rate abatement for insurance companies investing in state-based financial assets. The analysis begins with estimates of gross economic activity generated by the abatement, projected from 2024 to 2030. Next, this section presents calculations of net economic activity generated by the deduction and calculates 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 the insurance premium tax at the full, unabated rate 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 insurance premium tax rate abatement and an alternate, hypothetical scenario in which the abatement does not exist. For more information on the methodology and IMPLAN, see Appendix B.

## GROSS ECONOMIC ACTIVITY

The research team projected gross taxable premiums for life insurers and property/casualty insurers utilizing the abatement for the period 2024 - 2030 based on the trend in actual premiums from 2014-2023. Results are displayed in Table 2. Projected gross taxable premiums with the abatement range from $16.5 billion in 2024 to $25.2 billion in 2030. Total gross premiums with the abatement amounted to $144.4 billion over the 7-year period from 2024 to 2030.

To determine the amount of economic activity that would occur "but for" Georgia's premium tax rate abatement for insurance companies, the research team calculated the effective tax rate on abatement-eligible insurance premiums with and without the rate abatement. With the abatement, the effective tax rate for life insurers is 0.5% since, historically, essentially all abatement-eligible life companies receive the full abatement. The effective rate for P&C insurers is 0.75%, which is a weighted average of rates for those receiving both full and partial rate abatements. Without these abatements, the effective tax rate would be the standard 2.25% set by law. The difference between the effective unabated and abated tax rates is 1.75% for life insurers and 1.5% for P&C insurers.

To project gross taxable life insurance and P&C insurance premiums for a hypothetical scenario without the rate abatement, the difference in the effective tax rates is multiplied by the price elasticity of demand for life and P&C insurance premiums. Price elasticity of demand is a measure of the change in demand for a product or service in response to a change in price. Institute researchers utilized -0.61 for the price elasticity of demand for life insurance[4] and -.50

for the price elasticity of demand for P&C insurance based on a review of the literature[4]. For more detailed information on elasticity, see Appendix C. For a 1.75% increase in the price of premiums (due to the increase in the effective tax rate being passed on to consumers in the form of higher premiums), the demand for life insurance would be expected to decrease by 1.07%. For an analogous 1.5% increase in the price of P&C premiums, the demand for P&C insurance would be expected to decrease by .75%.

Gross premiums without the deduction were projected to be 0.93% (approximately 1%) lower. Projected gross premiums without the deduction ranged from $16.39 billion in 2024 to $24.97 billion in 2030 (Table 2). Total gross premiums without the deduction amounted to $143.0 billion over the 7-year period from 2024 to 2030.

**Table 2. Projected combined taxable life and P&C insurance premiums with and without abatement, tax with and without abatement, and forgone revenue, 2024-2030.**

| Year | Gross Premiums w/ Abatement | Gross Premiums w/o Abatement | Tax w/ Abatement | Tax w/o Abatement | Forgone Revenue Due to Abatement |
|---|---|---|---|---|---|
| **2024** | $16,544,996,035 | $16,389,832,234 | $91,445,396 | $372,262,411 | $280,817,015 |
| **2025** | $17,745,170,128 | $17,578,983,457 | $98,315,012 | $399,266,328 | $300,951,316 |
| **2026** | $19,034,164,769 | $18,856,157,470 | $105,715,573 | $428,268,707 | $322,553,134 |
| **2027** | $20,418,699,271 | $20,228,014,617 | $113,689,359 | $459,420,734 | $345,731,375 |
| **2028** | $21,906,013,485 | $21,701,731,316 | $122,282,120 | $492,885,303 | $370,603,183 |
| **2029** | $23,503,909,149 | $23,285,041,069 | $131,543,375 | $528,837,956 | $397,294,581 |
| **2030** | $25,220,794,610 | $24,986,278,798 | $141,526,721 | $567,467,879 | $425,941,158 |
| **Total** | $144,373,747,448 | $143,026,038,962 | $804,517,556 | $3,248,409,318 | $2,443,891,762 |

Source: Institute of Government Projections based on OCI Data.

The research team modeled the value-added impact of insurance premiums for eligible insurers, both with and without the rate abatement from 2024 to 2030 using IMPLAN[5]. Table 3 displays the value-added economic impact of those insurance premiums with and without the abatement. Under the current scenario in which the abatement exists, the sum of value-added economic impacts of life insurance and P&C insurance premiums was estimated to grow from $19.34 billion in 2024 to $29.99 billion in 2030. Under the counterfactual scenario in which the abatement does not exist, the value-added economic impact of life premiums was estimated to

[4] Babbel, David, "The Price Elasticity of Demand for Whole Life Insurance", The Journal of Finance, March 1985.
Krupa S. Viswanathan, Jean Lemaire, Kate Withers, Katrina Armstrong, Agnieszka Baumritter, John C. Hershey, Mark V. Pauly, David A. Asch, "Adverse Selection in Term Life Insurance Purchasing due to the BRCA1/2 Genetic Test and Elastic Demand", Journal of Risk and Insurance, March, 2007.
Pauly, Mark et al, "Price Elasticity for Term Life Insurance and Adverse Section", NBER Working Paper 9923, August 2003.

[5] 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

grow from $19.15 billion in 2024 to $29.71 billion in 2030. The estimated difference in value added impact with and without the abatement ranged from $182.37 million in 2024 to $280.45 million in 2030.

**Table 3. Value-added economic impact of projected insurance premiums with and without the insurance premium rate abatement and difference due to abatement, 2024-2030.**

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| W/ ABT. | $19,337,194,050 | $20,799,509,224 | $22,374,437,938 | $24,070,828,482 | $25,898,239,745 |
| W/O ABT. | $19,154,828,024 | $20,603,621,500 | $22,164,009,050 | $23,844,760,626 | $25,655,350,622 |
| DIFFERENCE | $182,366,026 | $195,887,724 | $210,428,888 | $226,067,856 | $242,889,123 |
| | 2029 | 2030 | | | |
| W/ ABT. | $27,866,999,609 | $29,988,268,281 | | | |
| W/O ABT. | $27,606,015,791 | $29,707,818,024 | | | |
| DIFFERENCE | $260,983,818 | $280,450,257 | | | |

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

Tables 4 and 5 give detailed estimates of the employment, labor income, value added, and total output for life insurers (Table 4) and property insurers (Table 5)

**Table 4. Economic impact of the Exemption for Life Insurers, 2024.**

| IMPACT | EMPLOYMENT | LABOR INCOME | VALUE ADDED | OUTPUT |
|---|---|---|---|---|
| DIRECT | 385 | $34,388,839 | $64,629,467 | $104,099,965 |
| INDIRECT | 221 | $17,460,877 | $31,900,001 | $61,627,384 |
| INDUCED | 263 | $14,858,537 | $28,578,770 | $48,514,793 |
| TOTAL | 869 | $66,708,253 | $125,108,238 | $214,242,142 |

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

**Table 5. Economic impact of the Exemption for Property & Casualty Insurers, 2024.**

| IMPACT | EMPLOYMENT | LABOR INCOME | VALUE ADDED | OUTPUT |
|---|---|---|---|---|
| DIRECT | 85 | $7,451,407 | $21,595,637 | $51,063,836 |
| INDIRECT | 180 | $14,438,305 | $23,527,451 | $52,570,954 |
| INDUCED | 112 | $6,309,136 | $12,134,700 | $20,599,674 |
| TOTAL | 377 | $28,198,848 | $57,257,788 | $124,234,464 |

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

## ALTERNATE USE OF FORGONE REVENUE

Under SB366, the research team was tasked with calculating how much economic activity would be generated if the abatement did not exist and premium taxes were collected and spent by the state of Georgia. To compare the ROI of the counterfactual scenario to the current scenario, the research team modeled the economic impact of the alternate use of forgone revenue. The alternate use of forgone revenue assumes that the state collects the full amount of premium taxes from those insurance companies eligible for the rate abatement 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.

The research team estimated forgone tax revenue by calculating the difference in projected premium taxes at the standard (2.25%) rate and abated (.5% for full and 1.75% for partial) rates.[6] For example, in 2024, projected gross premiums for insurers utilizing the abatement were projected to be $16.54 billion. For a counterfactual scenario in which the abatement did not exist, these companies would face an increase in costs equal to the amount of the unabated tax. This would amount to the afore mentioned 1.75% for life insurers and 1.5% for P&C insurers. Life insurers and P&C insurers would thus need to raise their prices by 1.75% and 1.5%, respectively, in order to recoup the amount of the tax increase, reducing demand for life insurance by 1.07% (based on the -0.61 price elasticity of demand) and reducing the demand for P&C insurance by .075% (based on the -0.50 price elasticity of demand). Thus, gross premiums for 2024 without the abatement would be $16.39 billion. With the abatement in place, the net tax for 2024 would be $91.45 million. Without the abatement, the net tax would be significantly higher at $372.26 million. Thus, Georgia's premium tax rate abatement resulted in forgone tax revenues of $280.82 million in 2024.

Table 6 displays the economic impact of the state collecting and spending an additional $280.9 million in taxes on insurance premiums in 2024. According to IMPLAN estimates, $280.9 million in premium taxes would support 5,022 direct (state) jobs, 475 indirect jobs, and 1,262 induced jobs for a total of 6,759 jobs. For each additional $1 million in state spending, 18 state jobs are directly supported. Each additional $1 million in state spending also supports two indirect jobs and five induced jobs. Based on IMPLAN estimates, $280.9 million in state spending would add $385.5 million to Georgia's GDP.

[6] Carrier Management, "Predictive Analytics: Bringing Price Elasticity Concepts to P/C Insurance" Wong, Philip, "Applications of Price Elasticities in Auto Insurance", 2014 Actuarial Research Conference.

**Table 6. Economic impact of the alternate use of forgone revenue, 2024.**

| IMPACT | EMPLOYMENT | LABOR INCOME | VALUE ADDED | OUTPUT |
|---|---|---|---|---|
| DIRECT | 5,022 | $219,959,882 | $200,638,068 | $280,817,012 |
| INDIRECT | 475 | $27,998,227 | $48,271,241 | $94,200,878 |
| INDUCED | 1,262 | $71,148,874 | $136,560,232 | $231,938,259 |
| TOTAL | 6,759 | $319,106,983 | $385,469,540 | $606,956,150 |

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

Under the counterfactual scenario, the full amount of premium taxes (2.25%) would be collected by the state. After all other abatements, forgone state revenue is estimated at $280.9 million in 2024, increasing to $425.9 million in 2030 (Table 7). Over the seven-year period from 2024 to 2030, total forgone state revenue amounts to $2.44 billion. Table 7 also displays the value-added economic impact (GDP) of the state collecting and spending premium taxes from otherwise abatement eligible insurance companies from 2024 to 2030. The value-added impact of the alternate use of forgone revenue grows from $385.5 million in 2024 to $584.7 million in 2030. Over the seven-year period from 2024 to 2030, total value-added economic impact of the alternate use of forgone revenue amounts to $3.35 billion.

**Table 7. Forgone state revenue due to the insurance premium tax rate abatement for insurance companies and value-added economic impact of alternate use scenario, 2024-2030.**

| YEAR | FORGONE STATE REVENUE | VALUE ADDED ECONOMIC IMPACT |
|---|---|---|
| 2024 | $280,817,015 | $385,469,540 |
| 2025 | $300,951,316 | $413,107,323 |
| 2026 | $322,553,134 | $442,759,525 |
| 2027 | $345,731,375 | $474,575,638 |
| 2028 | $370,603,183 | $508,716,463 |
| 2029 | $397,294,581 | $545,354,987 |
| 2030 | $425,941,158 | $584,677,329 |
| TOTAL | $2,443,891,762 | $3,354,660,805 |

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

## NET ECONOMIC ACTIVITY

The research team calculated the ROI of Georgia's insurance premium rate abatement for insurance companies as well as for the alternate use scenario. ROI is calculated as the gain from the investment—in this case the value added by the premium rate abatement—minus the cost of the investment—in this case forgone state revenue—divided by the cost of the investment.

The projected ROI of Georgia's insurance premium rate abatement for insurance companies is -0.30 between 2024 to 2030 (Table 8). For every $1 in premium tax abatement, approximately $0.70 in value-added impact accrues to the state's economy. For example, in 2024, for $280.8

million in in forgone state revenue, the rate abatement for insurance companies is projected to generate $182.4 million in value-added impact.

In the case of the alternate use of forgone revenue, i.e. the counterfactual scenario in which the state collects and spends the tax dollars, for $280.8 million in state spending, $385.5 million in value-added impact would accrue to the state of Georgia. Thus, the ROI of the alternate use scenario is 0.37. For every $1 in premium taxes collected and spent by the state, $1.37 in value-added impact accrues to the state's economy.

**Table 8. ROI of Georgia's premium tax rate abatement for insurance companies and alternate use of forgone revenue, 2023-2030.**

| | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|
| **Gross Forgone State Rev.** | $280,817,015 | $300,951,316 | $322,553,134 | $345,731,375 |
| **Net Forgone State Rev.** | $261,604,770 | $280,245,118 | $300,235,159 | $321,674,360 |
| **Exemption Value-Added** | $182,366,026 | $195,887,724 | $210,428,888 | $226,067,856 |
| **ROI of Exemption[1]** | -0.30 | -0.30 | -0.30 | -0.30 |
| **Alt. Use Value-Added** | $385,469,540 | $413,107,323 | $442,759,525 | $474,575,638 |
| **ROI of Alternate Use[2]** | 0.37 | 0.37 | 0.37 | 0.37 |
| | **2028** | **2029** | **2030** | |
| **Gross Forgone State Rev.** | $370,603,183 | $397,294,581 | $425,941,158 | |
| **Net Forgone State Rev.** | $344,669,661 | $369,336,046 | $395,797,165 | |
| **Exemption Value-Added** | $242,889,123 | $260,983,818 | $280,450,257 | |
| **ROI of Exemption[1]** | -0.30 | -0.30 | -0.30 | |
| **Alt. Use Value-Added** | $508,716,463 | $545,354,987 | $584,677,329 | |
| **ROI of Alternate Use[2]** | 0.37 | 0.37 | 0.37 | |

Source: Institute of Government Projections & IMPLAN 2022.

1. ROI of the tax exemption is calculated based on Net Forgone State Revenue (e.g. gross forgone revenue less additional state taxes collected).
2. ROI of the alternate use is calculated based on Gross Forgone State Revenue

## Fiscal Impact

Tax incentive evaluations are required to calculate the fiscal impact of credits and exemptions as well as the economic impact of these measures. 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 at the standard (2.25%) rate and the reduced rates for full (.05%) and partial (1.75%) abatements. The research team also modeled additional state tax revenue generated by the abatement using IMPLAN. This additional tax revenue is attributed to the marginally higher insurance sales that result from the abatement being passed on to consumers in the form of lower insurance premiums. The research team determined that the additional cost to the state of administering the abatement is negligible. The state Insurance Commissioner's office estimates the additional cost of administering this specific abatement to be no more than $1,000 annually since the staff and systems are already in place to administer other insurance premium taxes.

The difference in state tax between the current (with abatement) and counterfactual (without abatement) scenarios is displayed in Table 9. Incremental state tax collections due to the abatement range from $19.21 million in 2024 to $30.14 million in 2030 for a total increase of $170.33 million over the seven-year period. The fiscal impact of Georgia's premium rate abatement for insurers ranges from -$261.60 million in 2024 to -$395.80 million in 2030. Fiscal impact of the exemption over the seven-year period from 2024 to 2030 totals to -$2.27 billion in state revenue.

**Table 9. Forgone state revenue due to the premium tax abatement, increased state tax collections due to the abatement, and fiscal impact of the abatement, 2024-2030.**

| YEAR | FORGONE STATE REVENUE | INCREASED STATE TAX COLLECTIONS | FISCAL IMPACT |
|---|---|---|---|
| 2024 | $(280,817,015) | $19,212,245 | $(261,604,770) |
| 2025 | $(300,951,316) | $20,706,198 | $(280,245,118) |
| 2026 | $(322,553,134) | $22,317,975 | $(300,235,159) |
| 2027 | $(345,731,375) | $24,057,015 | $(321,674,360) |
| 2028 | $(370,603,183) | $25,933,522 | $(344,669,661) |
| 2029 | $(397,294,581) | $27,958,535 | $(369,336,046) |
| 2030 | $(425,941,158) | $30,143,993 | $(395,797,165) |
| TOTAL | $(2,443,891,762) | $170,329,483 | $(2,273,562,279) |

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

## Ancillary Impacts

Lower premium taxes reduce the cost of doing business for insurers, which insurers may or may not pass on to consumers. More affordable life and property/casualty insurance reduces the financial burden on consumers, making it less likely for them to forgo insurance or self-insure[7]. If Georgia's insurance premium tax abatement for insurance companies was repealed, insurers would face four options; (1) pass on the increased cost to consumers, (2) reduce dividend payments to stockholders, (3) redistribute investments to achieve a higher yield, or (4) operate at a loss. In a 2023 study of Georgia's special deduction for life insurers, the American Council of Life Insurers estimated that somewhere between 30% and 70% of a cost increase would be passed on to consumers. 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.

The research team conducted an informal survey of health insurers through the Georgia Association of Health Plans in which association members strongly indicated that the rate abatement was largely passed along to insurance customers in the form of lower premiums. Several health insurers responding to the survey reported the rate abatement as being important in reducing premiums for customers participating in the Georgia individual insurance market (formerly Healthcare.gov, now GA Access). Based on this observation, it is likely that any increased premiums passed along in the absence of a rate abatement would fall disproportionally on those who do not have access to subsided health insurance through employers.

[7] 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

# Appendix

## A. GEORGIA CODE RELATED TO ABATEMENT OF INSURANCE PREMIUM TAX

**2022 Georgia Code**
**Title 33 - Insurance**
**Chapter 8 - Fees and Taxes**
**§ 33-8-5. Abatement or Reduction of Tax on Insurance Premiums**

**Universal Citation:** GA Code § 33-8-5 (2022)

Whenever any insurance company doing business in this state shall make it appear to the Commissioner, by evidence satisfactory to him, that one-fourth of its total assets, as of December 31 of any taxable year, exclusive of direct obligations of the United States, consists of or is invested in any or all of the following classes of property:

1. General obligation bonds of this state or of any political subdivision of the State of Georgia;
2. Revenue bonds or revenue anticipation certificates of any county, municipality, or political subdivision of this state;
3. Revenue bonds or revenue anticipation certificates of any authority or public corporation created by or pursuant to the laws of this state;
4. Real estate situated in and subject to taxation by this state or its political subdivisions;
5. Tangible personal property located in this state and subject to taxation by this state or its political subdivisions;
6. Loans secured by liens on real estate situated in this state;
7. Policy loans on insurance policies issued by the company on lives of persons resident in this state;
8. Intangible property having a taxable situs in this state; or
9. Shares in Georgia corporations in which the insurance companies are authorized to invest under the laws of this state,

then the gross premium tax levied by Code Section 33-8-4 shall be abated or reduced to 1 1/4 percent upon the gross premium of any company subject to taxation by said Code section and, if the amount so invested by any company shall be as much as three-fourths of its total assets, exclusive of direct obligations of the United States, then the said premium tax shall be abated or reduced to one-half of 1 percent upon the gross premiums of the company subject to taxation by said Code section.

**History.** Code 1933, § 56-1305, enacted by Ga. L. 1960, p. 289, § 1; Ga. L. 1982, p. 3, § 33.

## 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 and fiscal impacts of Georgia's insurance premium tax abatement for insurance companies.

Institute researchers use IMPLAN, a widely used county-level economic model of the United States, to estimate the economic impact of the special deduction[8]. This model produces a baseline economic forecast using data from the US 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 US Department of Commerce.

In IMPLAN, an input, or change to the economy, is added to the model. Inputs can be new jobs, labor income, increased demand for goods and services, or policy changes, such as tax deductions. IMPLAN estimates the 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 region being studied, 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 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, insurance companies typically 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 insurance companies would result in an increase in premiums for life insurance policies. Insurance companies contacted in the course of this study unanimously cited increasing premiums as a means of absorbing costs associated with a hypothetical scenario in which the rate abatement was discontinued. Consequently, the research team felt confident in adopting this approach as the appropriate methodology for modeling the impact of the abatement.

[8] 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

## C. PRICE ELASTICITY OF DEMAND

The pivotal question in most tax exemption studies is commonly referred to as the "but for" question. It seeks to answer the question, "but for" the tax exemption, how would taxpayers behave, and thus resultant tax collections, be different? In the case of the insurance premium tax abatement, researchers approach the question by means of a counterfactual example by asking how insurance policy sales and related taxes might be different if the deduction were eliminated.

Two economic assumptions are necessary to in order to evaluate a counterfactual scenario. The first is that, in the absence of a state premium tax abatement, the cost of the tax would ultimately be passed on to consumers who purchase insurance products from the taxed company. The second is that, in the face of higher premium prices, consumers would purchase less insurance, (i.e. the demand curve for insurance is downward sloping). In the field of economics, this amounts to estimating the price elasticity of demand for 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 insurance, if the price of insurance coverage were to rise by 1% in the absence of a premium tax abatement, 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 insurance coverage were to fall in response to rising prices, the demand for insurance 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 insurance products. Chief among these difficulties is the lack of individual purchase data available to researchers and the sheer variety and complexity of insurance products available. For example, life insurance policies may cover 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. Adding to this complexity, is a dizzying array of policy options and riders that make it extremely difficult to compare the actual costs of different policies. Property and casualty insurance is equally complex, and elasticities may differ significantly depending on the type of product and duration of the policy.

Consequently, few academic researchers have attempted to estimate the price elasticity of demand for insurance coverage. Nevertheless, a few notable attempts have emerged from the academic literature including David Babbel (1985), Mark Pauly (2003), and Krupa Viswanathan

(2007)[9]. Babbel 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, Viswanthan 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 are for whole life policies and 13% are for term life policies. The resulting weighted average price elasticity of demand for life insurance was -.061. 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. 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.

Similarly, the price elasticity of demand for property and casualty (P/C) insurance generally indicates a low responsiveness to price changes, often in the inelastic range. In other words, consumers are less sensitive to premium changes in P/C insurance compared to many other goods and services. Specifically, the elasticity for P/C insurance is commonly estimated between -0.2 and -0.3 for renewals, meaning a 1% increase in premiums might reduce demand by just 0.2% to 0.3%. However, new customers tend to be more sensitive to price changes, with elasticity estimates closer to -1, indicating higher price sensitivity for new policy purchases compared to renewals.

Several factors contribute to the relatively low elasticity in P/C insurance. First, because many types of P/C insurance are legally required (like auto insurance), customers have limited flexibility in avoiding these costs. Additionally, the complexity of switching providers and the typically minimal price differences across insurers discourage frequent switching among policyholders. For example, regulatory factors and traditional cost-plus pricing approaches also limit how dynamically insurers can adjust prices to optimize demand elasticity. Researchers utilized a price elasticity of -.05 for property and casualty insurance to reflect the combined effects of the lower elasticities commonly associated with most P/C products and the relatively

[9] Babbel, David, "The Price Elasticity of Demand for Whole Life Insurance", The Journal of Finance, March 1985.
Krupa S. Viswanathan, Jean Lemaire, Kate Withers, Katrina Armstrong, Agnieszka Baumritter, John C. Hershey, Mark V. Pauly, David A. Asch, "Adverse Selection in Term Life Insurance Purchasing due to the BRCA1/2 Genetic Test and Elastic Demand", Journal of Risk and Insurance, March, 2007.
Pauly, Mark et al, "Price Elasticity for Term Life Insurance and Adverse Section", NBER Working Paper 9923, August 2003.
Carrier Management, "Predictive Analytics: Bringing Price Elasticity Concepts to P/C Insurance"
Wong, Philip, "Applications of Price Elasticities in Auto Insurance", 2014 Actuarial Research Conference.

higher elasticities often observed with renewals or newly insured risks such as new home or automobile purchases.