Bulletin 131

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION ASSESSMENTS AND TAX CREDITS AS OF JANUARY 1, 2005

May 26, 2005

In previous years insurers who were members of, and paid an assessment to, the Indiana Comprehensive Health Insurance Association (ICHIA) were entitled to take a credit against taxes owed, including premium tax under IC 27-1-18-2. A company could carry forward the unused credits. In 2004, the Indiana General Assembly significantly changed this practice. Pursuant to IC 27-8-10-2.4, no additional tax credits will be earned for assessments paid by members on or after January 1, 2005. Any member of ICHIA that before January 1, 2005 paid an assessment and had not taken a credit against the premium taxes is not entitled to claim any unused tax credit for the taxable years beginning after December 31, 2004 and ending before January 1, 2007. Thereafter, a member that has unused credits on January 1, 2007, may take an annual credit of ten percent (10%) of the amount of the assessments paid before January 1, 2005, against which the credit has not been taken. The amount of the annual credit may not exceed the amount of premium tax that is due for the taxable year. If the amount of the tax credit available exceeds the member's liability for the taxable year, the member may carry forward the amount of the unused annual credit to subsequent taxable years. The unused annual tax credits carried forward are not subject to the ten percent (10%) limit. The tax credits available may be carried forward indefinitely, but the total amount of credits taken may not exceed the total amount of tax credits that were available on January 1, 2005.

Insurance companies paid estimated quarterly payments on April 15, June 15, September 15, and December 15, 2004 for taxable year 2005. The final return for taxable year 2004 was due March 1, 2005. ICHIA members may use available tax credits as of January 1, 2005 for the 2004 taxable year liability.

ICHIA traditionally has a "true up" assessment several months after the close of the calendar year. This "true up" assessment is computed after claims are submitted and processed allowing ICHIA to determine the true losses for the previous calendar year. This "true up" assessment may require an additional payment if the actual plan losses exceeded 2004 assessments or if the previous years assessments were higher than actual plan losses then the members would receive a credit for their 2005 assessments. For taxable year 2004 insurers should calculate their assessment credits as of December 31, 2004. If the "true up" for calendar year 2004 results in an additional payment, IC 27-8-10-2.4 does not permit tax credits to be accrued for assessments paid on or after January 1, 2005. If the "true up" for the calendar year 2004 results in a credit to the insurer the insurer should reduce their accumulated unused tax credits as of December 31, 2004, in accordance with the "true up" credit. This event should be reflected in the report required by IC 27-8-10-2.3. If the insurer has used the tax credit on their 2004 premium tax filing then the insurer should file an amended return to reflect the reduction in the assessment and thus the tax credit to which they were entitled.

INDIANA DEPARTMENT OF INSURANCE
James Atterholt, Commissioner