



# NORTH CAROLINA GENERAL ASSEMBLY

## 2023 Session

### Legislative Fiscal Note

**Short Title:** Captive Insurance Revisions.  
**Bill Number:** Senate Bill 319 (First Edition)  
**Sponsor(s):** Sen. Todd Johnson, Sen. Jim Perry, and Sen. Benton G. Sawrey

#### SUMMARY TABLE

#### FISCAL IMPACT OF S.B. 319, V.1 (\$ in millions)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
<b>State Impact</b>					
Gross Premiums Tax	(0.8)	(1.6)	(1.7)	(1.8)	(1.8)
Less Expenditures	-	-	-	-	-
<b>General Fund Impact</b>	<b>(0.8)</b>	<b>(1.6)</b>	<b>(1.7)</b>	<b>(1.8)</b>	<b>(1.8)</b>
<b>NET STATE IMPACT</b>	<b>(\$0.8)</b>	<b>(\$1.6)</b>	<b>(\$1.7)</b>	<b>(\$1.8)</b>	<b>(\$1.8)</b>

#### FISCAL IMPACT SUMMARY

Section 1 of S319 authorizes the Commissioner of Insurance, at his/her discretion, to conduct financial examinations of risk retention groups (RRGs) domiciled in the State and to collect the cost of the examination from the risk retention group. Since the examinations are to be fully offset by funds collected from the examinee, there is no net impact on the State General Fund.

Section 2 reduces tax revenue by lowering the tax rate applicable to gross premiums paid to risk retention groups that are chartered outside of North Carolina for coverages within the State. The bill lowers the applicable tax rate from 5% to 1.85% of gross premiums and is estimated to reduce revenue by approximately \$0.8 million in FY 2023-24 and \$1.6 million FY 2024-25. Because this provision is effective October 1, 2023, it is expected to reduce revenue by approximately 50% of the annual impact in FY 2023-24.

Section 3 exempts captive insurance companies domiciled in another state that redomesticate to North Carolina from paying gross premiums tax in the year of and the year following redomestication. Fiscal Research estimates that this section will have no material revenue impact on the State.

#### FISCAL ANALYSIS

Section 2 of S319 reduces gross premiums tax revenue by lowering the tax rate applicable to gross premiums paid to foreign risk retention groups (RRGs) for coverages within the State. Data from

the North Carolina Department of Insurance indicates that gross premiums paid to foreign RRGs in calendar year 2022 amounted to \$44.1 million. Relying on historical data from DOI, Fiscal Research assumes an annual growth rate of 5.3%, which is similar to the average growth in such premiums in recent years, with adjustments to account for irregularities occurring during the pandemic.

Section 3 of S319 extends the provision exempting foreign captive insurance companies that redomesticate to North Carolina from paying gross premiums taxes for the remainder of the year of and in the year following redomestication, ending this exemption for taxable years beginning on or after January 1, 2025. Current law requires foreign captive insurance companies to have redomesticated on or before December 31, 2022, and sunsets this exemption for taxable years beginning on or after January 1, 2024. Fiscal Research does not expect this provision to have a material fiscal impact. The total amount of gross premiums tax revenue paid by all captive insurance companies amounts to approximately \$2 to \$3 million per year on average over the last five years; the amount of revenue resulting from foreign captive insurance companies redomesticating to North Carolina absent this change is expected to be negligible.

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## **TECHNICAL CONSIDERATIONS**

N/A.

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## **DATA SOURCES**

North Carolina Department of Insurance

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## **LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS**

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

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## **CONTACT INFORMATION**

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**Signed copy located in the NCGA Principal Clerk's Offices**