OBSERVATIONS ON STATE TAXATION OF CASUALTY AND FIRE INSURANCE COMPANIES[1]

BY

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Although the public has been kept very well informed on the subject of the many services performed by insurance companies, there is one about which, although it is of major importance, surprisingly little has been published. This service, performed by every insurance carrier for each state to which it is admitted, is the collection of taxes from the policyholders and the accounting for and return of these taxes to the various state and local taxing authorities. This most important function is performed for the states, counties, and municipalities at practically no cost to the taxing bodies, provision for such taxes and the expenses incidental to collection, accounting for and returning them being included in the rates charged to policyholders.

Everyone pays for insurance, whether directly to an insurance company as premiums, to a landlord as part of his rent, or to every individual or corporation from whom he buys anything. The states, therefore, receive taxes from every resident (and many non-residents) collected for them by the insurance carriers. Premium taxes are, then, actually indirect taxes on the policyholders and their customers, originally assessed to provide for the maintenance of the Insurance Departments for the protection of the policyholders, but now a major source of income for the general funds of all states. It has been estimated that in 1953 the total taxes and fees collected by the 48 states and the District of Columbia from the insurance business including the Life Insurance industry) exceeded $328 million, of which only about $13.5 million, or 4.1%, went for State supervision of the business.[2]

In general, excise taxes, whether state or federal, are imposed on the cost of so-called luxury items. State sales taxes often exempt such items as food and children's clothing as essentials. Insurance can hardly be called a luxury — and the premium paid for a compulsory line such as Workmen's Compensation can, by no stretch of the imagination, be deemed such. In effect, a state says to each employer of labor, "You must buy insurance to protect your employees. The company from which you purchase this protection must, in addition to the premium required for the coverage, also collect from you a sum

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[1]For historical background of the taxation of Casualty and Fire insurance companies, see Chapter VII, "TAXES, LICENSES AND FEES (Excluding Federal Income and Real Estate Taxes)" *INSURANCE ACCOUNTING, FIRE & CASUALTY*, the Insurance Accounting and Statistical Association textbook published in 1954 by The Spectator.

[2]Elmer Miller, Insurance Editor, in the June 4, 1954, issue of the *JOURNAL OF COMMERCE.*

which will enable it to pay to us $2 (or $3, or $4.50) for each $100 of gross premium it receives from you."

Fire and Casualty carriers are subject to a great many *types* of taxes imposed by States and political subdivisions thereof. A copy of the "COMPOSITION OF OPERATING EXPENSE CLASSIFICATIONS" of the "INSTRUCTIONS FOR UNIFORM CLASSIFICATIONS OF EXPENSES of Fire and Marine and Casualty and Surety Insurers" for operating Expense Classification numbers 18 and 20 (taxes) is attached (Exhibit A).

"State, county and municipal taxes, licenses and fees based upon premiums" (18(a)) include such taxes as Fire Department, Fire Marshal, Firemen's Relief Funds, N. Y. City Receipts, Chicago Personal Property, Policemen's Retirement Pension Funds, etc.

Although no state imposes *all* these types of taxes, most states impose several and some impose many of them.

Premium taxes assessed to help maintain improved Fire protection may be considered as money well spent by the insurance companies for value received, but, for the most part, other taxes are imposed as a purely revenue-producing measure by the taxing authorities.

The most lucrative source of revenue from Insurance Company taxation is the state tax based upon premiums. Whether designated by the taxing state as "State Premium Tax," "Company License Tax," or "Privilege Tax," it is a tax, varying from 1¾% to 4½%, usually based on direct premiums written by the Company during the tax period on risks located or resident within the state.

At the present time domestic (home-state) companies are not subject to the premium tax in eleven states.[3] In ten states[4] the premium tax rate for domestic companies is lower than that for foreign companies. Thirty-eight states[5] (including 17 of the previously noted 21) tax insurance companies of other states under retaliatory laws. Such laws provide that if the tax rate of State A applicable to foreign (other state) companies, is higher than that of State B applicable to foreign companies, the State A rate will be applied by State B to companies domiciled in State A. An example of such a law is taken from the Minnesota Statutes, Section 71.23, and reads as follows:

> "When by the laws of any other state or country any taxes, fines, deposits, penalties, licenses, or fees, in addition to or in excess of those imposed by the laws of this state upon foreign insurance companies and their agents doing business in this state, are imposed on insurance companies of this state and their agents doing business in that state or country, or when any conditions prece-

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[3]Arkansas, Florida, Illinois, Indiana, Kansas, Michigan, No. Dakota, Ohio, Oklahoma, Oregon, and Pennsylvania.

[4]Alabama, Arizona, Maine, Mississippi, Nebraska, No. Carolina, So. Carolina, So. Dakota, and Washington; also Texas on Accident and Health premiums.

[5]All states except Alabama, California, District of Columbia, Georgia, Idaho, Mississippi, Nevada, New Mexico, No. Carolina, Texas and West Virginia.

dent to the right to do business in that state are imposed by the laws thereof, beyond those imposed upon these foreign companies by the laws of this state, the same taxes, fines, deposits, penalties, licenses, fees, and conditions precedent shall be imposed upon every similar insurance company of that state or country and their agents doing or applying to do business in this state so long as these foreign laws remain in force."

While some states retaliate on the basis of total taxes, licenses, and fees, others retaliate tax for tax, license for license, and fee for fee. A company which might not be liable for a retaliatory tax under the former basis might, under the latter, be forced to pay in retaliation for one or more fees charged by its home state in excess of those charged by the taxing state, although the total home state taxes might be the same as, or lower than, those of the taxing state.

Thus it is evident that in many states foreign companies are subjected to discriminatory taxation which results in unfair competition, especially in the case of a company domiciled in a state which taxes companies of other states at a high rate. The retaliatory statute of the state where a workmen's compensation risk is located may result in a tax rate of as high as 4½%, while a domestic company might pay no tax at all. Such tax discrimination may prove to be particularly frustrating in competing for a large retrorated Group Accident and Health risk where the competition depends to a great extent on the carrier's retention, of which the premium tax is an appreciable portion.

It would seem, then, that such discrimination would be unlawful in view of the Supreme Court decision in the South Eastern Underwriters Association case which held that insurance was commerce.

However, following the enactment of the McCarran Act, a decision of the Supreme Court upheld the validity of such discriminatory taxation in *Prudential Insurance Company v. Benjamin*, the Prudential having protested the three percent South Carolina premium tax on foreign insurers (but not on domestic companies). Prudential claimed that the tax "discriminates against interstate commerce and in favor of local business, since it is laid only on foreign corporations and is measured by their gross receipts from premiums derived from business done in the state, regardless of its interstate or local character."[6]

The Court stated:

"Two conclusions, corollary in character and important for this case, must be drawn from Congress' action[7] and the circumstances in which it was taken. One is that Congress intended to declare, and in effect declared, that uniformity of regulation, and of state taxation, are not required in reference to the business of insurance, by the national public interest, except in the specific re-

[6]Opinion of the Court, delivered by Mr. Justice Rutledge.

[7]The passage of Public Law 15, 19th Congress, known as The McCarran-Ferguson Act.

spects otherwise expressly provided for. This necessarily was a determination by Congress that state taxes, which in its silence might be held invalid as discriminatory, do not place on interstate insurance business a burden which it is unable generally to bear or should not bear in the competition with local business. Such taxes were not uncommon among the states, and the statute clearly included South Carolina's tax now in issue.

"That judgment was one of policy and reflected long and clear experience. For, notwithstanding the long incidence of the tax and its payment by Prudential without question prior to the South-Eastern decision, the record of Prudential's continuous success in South Carolina over decades refutes any idea that payment of the tax handicapped it in any way tending to exclude it from competition with local business or with domestic insurance companies."

And

"No conceivable violation of the commerce clause, in letter or spirit, is presented."[8]

Since the South Carolina "free ride" for domestic companies does not violate the commerce clause, certainly retaliatory taxation, by the same reasoning, must not constitute a handicap in competition, at least from a legal standpoint.

Therefore it is interesting to consider the effect of such retaliation on a hypothetical South Carolina company presumed to be doing a large volume of business outside the state. Its home state has granted it a distinct tax advange on business (other than workmen's compensation) it may write in South Carolina. A foreign company holding no investments in South Carolina securities and with no bank balances in the state pays 3% of its premiums on South Carolina business, compared to the average premium tax rate of about 2% applicable to foreign companies. But, with most states having retaliatory laws in effect, the South Carolina company might find itself forced to pay 3% on most of its out of state premiums, so the "free ride" at the expense of foreign companies could prove to be a boomerang.[9]

Connecticut companies find themselves in the exact opposite situation from South Carolina carriers. They pay a tax on total investment income (less certain exempt interest and dividends) which is *not* levied against *foreign* companies. They also bear the expense of company examinations by the Connecticut Insurance Department. However, these extra taxes to the home state enable the premium tax rate to remain at 2% (retaliatory) on foreign companies, thus virtually

[8]See "The New Era of Casualty Rate Making" by James B. Donovan — *Proceedings, Casualty Actuarial Society,* Vol. XXXIV.

[9]Act 234 of 1955 imposes premium tax of 2%, but not exceeding 5% of "actual net income," on Domestic Companies. (Workmen's compensation, 4½%, same as for Foreign Companies).

exempting Connecticut companies from retaliatory taxes. Unquestionably the many Connecticut companies with large premium writings in other states — most of which are retaliatory — find it much more economical to pay the extra taxes to Connecticut than to be faced with paying higher-than-average premium taxes to other states in retaliation for a higher-than-average tax assessed by Connecticut on foreign companies which would be required to raise the revenue now secured from the local carriers based on their investment income. (This, of course, is based on the questionable premise that the revenue realized from these extra taxes must be levied against the insurance business.)

Incidentally, the Connecticut tax on investment income is a unique tax. It replaced the Connecticut Franchise Tax and the Connecticut Capital Stock Tax, both based on the market value of the outstanding capital stock of domestic companies on an annual assessment date. As a result of the inflation of the late twenties and the subsequent depression, the market valuations fluctuated violently and this tax base failed to produce the degree of consistency desirable from a revenue standpoint. Consequently these taxes were repealed and legislation enacted levying a tax on the total investment income received during each calendar year, less certain exempt income such as interest from U.S. securities and dividends from other Connecticut insurance companies subject to the tax. Although some companies classify this tax as an investment expense since it is based on investment income, most consider it a franchise tax which is based on investment income only for the purpose of stabilizing the revenue therefrom.

Tax advantages offered by some states to domestic companies help small carriers which confine their underwriting for the most part to local business to remain in competition with the larger foreign corporations which can usually conduct business with a lower expense ratio than the smaller companies. As for the larger domestic companies which write a large volume of premiums in other states, they will enjoy the home-state tax advantage on business done within the state and can suffer no appreciable retaliatory penalty *if* its home state does not tax foreign companies at a rate in excess of 2%.

In addition to relieving domestic companies of paying the premium tax on business written in the home state, or paying at a lower rate than is charged foreign companies, there are other methods employed by several states to lighten the tax burden of companies which either write a high percentage of their total business in the taxing state or have a large portion of total investments in certain securities of the state. Presumably, tax relief would be available to any carrier, but practically, relief under such provisions usually accrues to domestic companies only.

The 3% South Carolina tax on foreign companies, previously discussed, may be reduced to as low as 2% by investing in certain South Carolina securities or maintaining bank balances within the state equal to the amount of taxable premiums written during the year. This is one tax advantage which any foreign company might well consider, and the investment department or banking division should be furnished with an estimate of the amount of investment or bank balance necessary to accomplish the maximum tax reduction before the beginning of each year, as the tax may be reduced only on those premiums written while the investments are held, and only those bank balances held continuously throughout the year may be used in determining the ratio of bank balances to taxable premiums.

There is a provision in the New Jersey law which assesses state premium taxes on the total direct writings within the state *or* on 12½% of the company's *total* direct writings, whichever is less. This, in effect, offers a tremendous advantage to small companies which confine their operations largely to the state of New Jersey. However, the retaliatory provision effectively limits the advantage to domestic companies.

Is it too whimsical to suggest that a large stock company with ample capital funds, doing a very substantial volume of business in New Jersey, might conceivably organize a New Jersey subsidiary to write all its business within the state (ceding it all to the parent company), with the result that only one-eighth of the direct writings would be subject to premium tax? Or that a subsidiary be incorporated with more than 90% of its assets invested in tax-free Texas securities to write the Texas business, and cede it to the parent company, reducing the occupation (premium) tax from 3.85% to 1.1%?

Perhaps it is. But with multiple-line underwriting and the resulting tendency to merge the business of affiliated fire and casualty companies, it is conceivable that several subsidiaries of a large fleet might be reorganized in such a manner as not only to overcome some of the state tax discriminatory provisions but to make them work to the advantage of the parent company. Meanwhile, since the decision in *Prudential v. Benjamin,* carriers must content themselves with conceding that the cost of tax inequities is the price of state as opposed to federal regulation of the insurance business.

Since the Supreme Court decision in *Connecticut General Life Insurance Company v. Johnson,*[10] state premium taxes have, as a rule, been based on the direct writings of insurance companies. Several states tax on direct premiums plus reinsurance premiums received from companies not authorized to transact business in the state and therefore are presumed to have made no return of taxes on the direct business. California, Massachusetts, New York, Rhode Island and Vermont impose premium taxes on their domestic companies based on

[10]Connecticut General Life Ins. Co. v. Johnson, 1938, 303 U.S. 77, 58 S. Ct. 436, 82 L.Ed. 673. In this case the United States Supreme Court held invalid a California constitutional and statutory provision which attempted to impose a tax on the insurance company on account of reinsurance business done elsewhere where the original policy was issued in California.

premiums not taxed elsewhere. Let us consider a situation which might consequently develop.

Assume that California Company A is authorized by the United States Treasury Department to issue Surety bonds in its favor in connection with construction work, wherever located, undertaken for the United States Government. It issues such a bond for a project in, let us say, New Mexico, in which state it is *not* licensed, and cedes half the risk to Company B, which *is* licensed in New Mexico, as well as authorized by the Treasury Department to participate in such contracts. The customary allowance is included in the reinsurance commission to reimburse the direct writing company for premium taxes payable on the direct premium. However, at the time of preparing the tax return on New Mexico premiums, Company B finds that Company A is not licensed there, and, since New Mexico taxes on "direct plus unauthorized accepted" premiums, Company B asks Company A for an adjustment, since Company A pays no tax to New Mexico, and Company B has paid both to the state and to Company A in the form of commission allowance. Company A replies that it has had to pay the tax on the entire premium to California, and, therefore, cannot agree that it is not entitled to reimbursement from Company B for the tax on that portion of the premium ceded to it. So California collects the tax on the total premium from the direct writing company because it returned it to no other state, and New Mexico collects the tax on that half of the premium accepted by the authorized carrier; and the accepting company ends up paying taxes on the whole premium, although it has received but half. Confusing, but double taxation can hardly be called amusing!

If this hypothetical situation seems far-fetched, be assured that similar conditions have actually arisen, and that they *are* confusing! Reinsurance underwriters and accountants should have easy access to all state tax rates and bases as a help in determining proper tax allowance in the commission rates for reinsurance assumed. Some company trade organizations, such as the Association of Casualty and Surety Companies and the National Board of Fire Underwriters, issue tax manuals which are most valuable to the tax units of Casualty and Fire companies in the preparation of state tax returns, and copies of these manuals, as well as of any of the publications which list the states in which each company is admitted, should be made available to the reinsurance departments.

When reinsurance on a risk located in several states is assumed by a company licensed in all states from a company which is not authorized to write in one or more of the state locations of the risk, the assuming company may find that it has paid double premium taxes on that part of the premium derived from states in which the ceding company is not licensed if such states tax on direct plus unauthorized assumed premiums — first to the ceding insurer as a tax allowance in the reinsurance commission rate and subsequently to the state concerned. If the amount involved is large enough to warrant it, a tax adjustment can usually be made with the direct writer — unless, as in the example above, the direct writer is required to pay the tax on such business to its home state. Therefore, the person responsible for the preparation of state premium tax returns should immediately inform the proper underwriting authorities if and when he finds that the company is required to pay taxes on any appreciable amount of unauthorized reinsurance accepted, so that the reinsurance official may, in his discretion, have the accounting department seek reimbursement from the ceding company.

It would seem, from the foregoing, that, for the purpose of returning premiums for taxation to the various states, it should be necessary to record only net direct premiums written by state location of risk, and reinsurance premiums received by state and by ceding company in order to satisfy all requirements and to make proper tax payments. Such records, in most cases, should provide sufficient data to satisfy the legal requirements. However, the Insurance Departments and/or the Tax Commissions of many states have devised forms for reporting taxable premiums, the completion of which necessitates the keeping of numerous sub-accounts, all more or less expensive to maintain, and which call for information of no conceivable value to anybody. Because a state law may define taxable premiums as total direct premiums less premiums returned on policies cancelled, we may find that the tax blank calls for the reporting of direct premiums gross, with a separate line on which must be entered the amount of return premiums so that it may be deducted to produce the net taxable premiums.

Needless to say, the net taxable amount is readily available, but a special tabulation of return premiums must be made for such a state to determine a figure to be entered and *added* to the net in order to produce a gross. Some states have even asked for this information by line of insurance; and if unauthorized accepted premiums are taxed, companies are asked by some states to report all this needless information for each company from whom they have assumed reinsurance premiums, whether authorized or not.

During the latter part of 1942 and early 1943 a concerted effort on the part of the industry was made to reduce the number of special state requirements. The plea for simplification was made in the interest of war time economies, and was made by the National Board of Fire Underwriters for the Fire companies and by the Association of Casualty and Surety Executives for the Casualty companies. Both associations performed yeoman service in their attempts to lighten the burden during those trying times.

There is appended a copy of the circular letter written by the Special Representative of the Association of Casualty and Surety Executives and addressed to the insurance commissioners of all states (Exhibit B).

To each copy was attached a list of proposals to either waive certain requirements or to grant official approval of suggested simplifications in the completion of various forms required by the state whose commissioner was addressed. Note that the circular recommends that all states accept "a simple reporting of direct premiums less return premiums and cancellations on same, as one item, plus a separate item of any reinsurance assumed from unauthorized carriers."

These letters were tactfully but persistently followed up with additional correspondence when and where necessary, the operation culminating in an extended trip on the part of the Special Representative to visit the insurance departments of those states whose requirements still presented problems which, it was felt, a personal interview might solve where correspondence had failed.

As a result of this campaign many states agreed to accept simplified filings during the war years. Some have subsequently revised their premium tax blanks to conform to the accepted war time procedure, thus making the economies permanent; some continue to accept simplified filings of more detailed blanks, completed as allowed by special permission during the war years; others, whose commissioners granted permission for simplified filings "for the duration," now request the reporting of all information called for in the blanks provided; while still others, having seen fit to grant little or no relief as war time economies, continue to expect companies to maintain costly and time-consuming records to enable them to report in tax blanks information of no practical value.

It has become common practice in recent years for Fire companies to keep no records of return premiums as such, and to report only the net direct premiums, and, if taxable, the net unauthorized reinsurance premiums assumed, amending the tax blanks when necessary to indicate that separate data on return premiums are not available. Such filings have evidently been acceptable with little or no unfavorable criticism. Personal inquiry has elicited the information that some Casualty companies with Fire "running-mates" have been following this same practice, at least in most states, and that they have also been successful in their attempt to satisfy the authorities with such simplified reportings. It seems safe to assume that those fleets which have merged their fire and casualty lines, as permitted by "Multiple-Line Underwriting" legislation, are not recording return premiums, in accordance with what has become commonly accepted practice for Fire companies.

The distinction between Fire and Casualty companies by those states which now permit multiple line underwriting is anachronistic. Two different premium tax blanks, one designed for Fire companies and the other for Miscellaneous companies, may be furnished by such a state with the request that *each* be completed and filed, the presumption being that a company would report its premiums on those lines of business formerly permitted to be written by Fire companies on the Fire form, and the balance of its premiums on the form for Miscellaneous companies.

This pseudo-distinction between Fire and Casualty companies may result in further confusion to multiple-line underwriting companies in connection with additional taxes assessed against Fire companies but not against Casualty companies. For instance, West Virginia, in addition to the 2% premium tax, imposes on *Fire* companies *only* a state Fire Marshal tax of ½% of premium income from *all* classes of business.

Wherever statutes and/or insurance department regulations of any state which permits multiple line underwriting distinguish in any way, and especially as respects taxes, licenses, and fees, between Fire companies and Casualty or Miscellaneous companies, such statutes and regulations should, of course, be amended and made consistent with the more recently enacted Multiple Line Underwriting legislation.

Mr. James B. Donovan, General Counsel of the National Bureau of Casualty Underwriters, in his article "Regulation of Insurance Under the McCarran Act"[11] made the following statement: "We are an industry which today is probably more free of unethical conduct than any other of comparable size; yet we are subjected to more public regulation and are the victims of more discriminatory legislation." Much of this regulation and legislation has to do with taxes, licenses, and fees, and any effort to effect economies through legitimate simplification of their reporting which would obviate the necessity of maintaining useless, though costly, records would seem to be justified as a worthwhile service to the policyholders.

EXHIBIT A

18. TAXES, LICENSES AND FEES

a) State and Local Insurance Taxes

Include:

State, county and municipal taxes, licenses and fees based upon premiums.

Fire patrol assessments.

Payments to State Industrial (or other) Commissions for administration of Workmen's Compensation or other State Benefit Acts (including assessments for administering Financial Responsibility Laws) regardless of basis of assessment.

Net payments to State Security Funds, Reopened Case Funds, Second Injury Funds and other State Funds, when construed by the company as operating expenses regardless of basis of assessment.

Exclude:

Allowances for taxes under reinsurance contracts.

b) Insurance Department Licenses and Fees

Include:

[11] *LAW and CONTEMPORARY PROBLEMS*, School of Law, Duke University, Vol. 15, No. 4.

Agents' licenses.
Certificates of authority, compliance, deposit, etc.
Filing fees.
Fees and expenses of examination by insurance departments or other governmental agencies.

Exclude:

Items includible in Claim Adjustment Services.

c) Payroll Taxes
Include:

Old age benefit taxes.
Unemployment insurance taxes.

Exclude:

Payroll taxes includible in Real Estate Taxes.

d) All other (excluding Federal and Foreign Income and Real Estate)
Include:

Qualifying bond premiums.
Statement publication fees.
Advertising required by law.
Personal property taxes.
State income taxes.
Capital stock taxes.
Business or corporation licenses or fees (not includible under (a) or (b).
Marine profits taxes.
Documentary stamps on reinsurance.
Any other taxes not assignable under (a), (b), and (c) and not otherwise excluded.

Exclude:

Cost of advertising required by law where more than minimum space required to comply with the law is taken.
Such expense shall be included in Advertising.
Real estate taxes, licenses and fees (see Real Estate Taxes).
Items includible in Claim Adjustment services.
Fees for automobile license plates.
Federal and Foreign income tax.
Sales taxes, etc. included on invoices of vendors.
Such taxes are to follow allocation of cost of items purchased.

20. REAL ESTATE TAXES
Include:

Taxes, licenses and fees on owned real estate.

EXHIBIT B

"SUPPLEMENTARY STATE SCHEDULES, TAX STATEMENTS AND REINSURANCE SCHEDULES

"Because of the impact of the war upon the personnel and equipment in casualty company offices, on behalf of our member companies, we respectfully submit for your consideration the attached proposal(s) to simplify some of the detailed data in connection with casualty companies' filings with your state for calendar year 1942.

"These proposals are based upon our understanding of the resolution adopted by the Executive Committee of the National Association of Insurance Commissioners of which you were advised on October 16, 1942, by the Chairman of that Committee. The intent of this resolution appears to be that, wherever possible, without lessening the necessary requirements of supervision within a given jurisdiction, the Commissioners, for the duration of the war, require fire and casualty insurance companies to file only the uniform blank approved by the National Association of Insurance Commissioners and such additional blanks as are required by the laws of the several states, eliminating so far as can be done for the period of the war, the individual special filings required by the various departments.

"Furthermore, we believe that these proposals conform to the recommendations included in the special report of the Committee on Blanks of the National Association of Insurance Commissioners adopted and approved by the Executive Committee of the Convention as a whole on December 2nd in New York City, reading as follows:

> 'Recommended that the sixty day extension for filing schedules approved by the Executive Committee as to life insurance companies, be made applicable to all types of companies.
>
> 'Recommended that the respective states should review their insurance tax blanks in the light of the present emergency and the shift by most states to the direct basis, for the purpose of eliminating therefrom all data not bearing directly on the computation of the tax or the proper audit of such tax returns.'

"During the past war year the companies have sought every possible means of freeing manpower for service and releasing equipment by the simplification of systems, redistribution of work, and otherwise. Despite these efforts the present requirements for all states combined are almost terrifying in the light of available staff and equipment and indications strongly suggest the physical impossibility of carriers carrying on in 1943 without permission to curtail drastically the tabulation of all detailed data which is not absolutely essential.

"The Federal Government has already requisitioned typewriters and during the coming year in any installation where more than a single unit of electrical accounting machine equipment is operated, insurance carriers are expected to release up to 50% of such equipment for use by the Federal Government or its Departments or by War industries.

"Perhaps one of the most burdensome tasks facing the companies is the determination of the data required in supplementary schedules and special forms for the various states, calling for itemizations in respect to assumed and ceded reinsurance. In regard to such schedules, we respectfully suggest that the great amount of labor and machine work involved in their compilation is not in these times justified by their value — particularly so since taxation has been largely shifted from the net to the direct premium basis.

"Likewise, it would be most helpful if any state still requiring a complete breakdown of state premiums by line of business on tax blanks or supplementary schedules would consider omitting such a required breakdown (this is already available on page 10 of the Convention Blank*).

"The actual taxable premiums for most states are direct premiums less return premiums and cancelations but the tax blanks still require the return premiums to be shown separately. In other states, where tax is based on gross premiums less return premiums and reinsurance assumed from authorized companies, each such item must be cited in detail although actually, the tax is based on direct premiums. It would seem that a simple reporting of direct premiums less return premiums and cancelations on same, as one item, plus a separate item of any reinsurance assumed from unauthorized carriers, would simplify the work and produce the same tax. For these reasons it is hoped that, if not this year, tax blanks for 1943 and future years may be materially simplified in this regard.

"On behalf of all our member companies we wish to express to the Executive Committee our appreciation for the resolution adopted and distributed to all Commissioners last October; to the Insurance Commissioners as a group for their adoption of the report of the Committee on Blanks amending the Convention Blank Statement for 1942; and lastly to the many individual commissioners who, both before and after the above actions, have already instituted deletions and simplifications in supplementary schedules and tax statements of their states, or have agreed to give maximum aid in this regard.

"The proposal(s) attached to this letter is(are) respectfully submitted for your review and consideration, and it is our hope that after such review your Department may take steps to notify all carriers, that, when filing the supplementary schedules and other statements with your Department for 1942, they may make their filings in the simplified manner described.

Yours very truly,

Special Representative of the Association of Cas. & Sur. Exec."

*Page 10 of the Convention Blank for Miscellaneous Companies at that time was the State Business page.