

Local government premium tax: What you need to know

Many consumers will notice a charge on certain insurance tax bills for *municipal* or *local government premium* tax. This is an amount paid by insurance companies to city and county governments.

Local governments rely on insurance premium taxes to fund projects and the money can be a significant part of a city or county budget.

In order to charge this tax, local governments must pass an ordinance specifying the amount. This must be submitted to the Kentucky Department of Insurance (DOI) no later than March 23 (at least 100 days before the July 1 effective date). DOI compiles the information from all the municipalities and posts the data for insurance companies to use to ensure that the proper local government receives your tax dollars.

Obviously, this makes city limit and county boundary lines more important than ever. Pressure has been placed on insurance companies to ensure that the tax makes its way to the correct governmental body. For example, if you live within the Winchester city limits, you will pay 8 percent on various insurance premiums. But, if you live in Clark County, you will pay 4 percent on most lines but no tax on others. Consumers and local governments have an interest in being sure the tax is received by the correct municipality.

A law to strengthen this process was passed during the 2008 General Assembly. Some key provisions of that law are:

- A system is in place for an insurer or consumer to request a refund or credit if the wrong amount has been charged. Your insurance company must notify you of the appeals process and your rights.
- Beginning Jan. 1, 2010, insurers must use a "risk location system" so the tax is properly charged and paid to the municipality where the risk is located.



Your company must...

When you are issued a new policy or if you are renewing an existing policy, your insurer must include the amount of the local government premium tax charged for that period and the name of the taxing jurisdiction. This applies if the insurer is passing the charge on to you. Review this carefully to see if the proper city or county has been named.

Appeals process...

Obviously, if you are paying taxes, you want it to be the appropriate amount and to go to the correct city or county.

If you believe there has been an error, you must follow the appeals process. The first step is to send a request to the insurer asking that the information be reviewed. The appeal must include:

- Name of policyholder
- Address of location of risk insured
- Amount of overpayment
- Dates of coverage
- Amount of tax paid
- The type of risk insured

If the company does not make a payment or issue a credit within 90 days, you can ask DOI to review the request. **This request to DOI must be sent via certified mail.**

If the company says it will not pay, you must contact DOI within 30 days after you receive the letter. If a company does not respond within 90 days, you must contact DOI within 30 days of the end of the 90-day response time. DOI will investigate the complaint within 60 days (with the possibility of one 30-day extension) and make a determination. Either party can appeal DOI's decision within 60 days of receipt. An administrative hearing will be scheduled.

After Dec. 31, 2008, all requests for refunds or credits must be made within two years of the payment in question.

December 2008